

**TOWN OF STERLING, MASSACHUSETTS**

**Report on the Examination  
Of Basic Financial Statements**

**For the Year Ended June 30, 2011**

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### Independent Auditor's Report

To the Honorable Board of Selectmen  
Town of Sterling  
Sterling, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sterling, Massachusetts, as of and for the year ended June 30, 2011 (except for the Sterling Electric Light Department, which is as of and for the year ended December 31, 2010), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sterling, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Sterling Electric Light Department, which represents 75 percent of the assets and 89 percent of the operating revenues of the Proprietary Fund Types. These financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Sterling Electric Light Department, is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

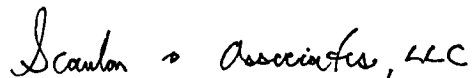
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sterling, Massachusetts, as of June 30, 2011, (except for the Sterling Electric Light Department, which is as of and for the year ended December 31, 2010), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1B to the financial statements, the Town adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2011.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 5 to 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sterling's financial statements as a whole. The Supplementary Schedules, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The Supplementary Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Scanlon & Associates, LLC".

Scanlon & Associates, LLC  
South Deerfield, Massachusetts

March 14, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Town of Sterling (the Town), we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. Readers should also review the Financial Statements and the Notes to the Financial Statements to enhance their understanding of the Town's financial performance.

### **FINANCIAL HIGHLIGHTS**

- The Town's assets exceeded its liabilities at June 30, 2011 by \$49,190,971 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$48,765,986, or an increase of \$424,985.
- Total net assets are comprised of the following:
  - (1) Capital assets, net of related debt, of \$36,464,136 include property and equipment, net of accumulated depreciation, and reduced by outstanding debt related to the purchase or construction of capital assets.
  - (2) Net assets of \$1,935,398 are restricted by constraints imposed from outside the Town such as grantors, laws or regulations.
  - (3) Unrestricted net assets of \$10,791,437 represents the portion available to maintain the Town's continuing obligations to citizens and creditors.
- The Town's governmental funds reported total ending fund balance of \$9,529,587 this year. This compares to the prior year ending fund balance of \$9,793,040 resulting in a decrease of \$263,453 during the current year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town of Sterling's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **Government-Wide Financial Statements**

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *Statement of Net Assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the *Government-Wide Financial Statements* distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works, education, health and human services, culture and recreation, employee benefits and insurance, state assessments and interest. The Business-Type Activities include the water and electric light activities.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

#### **Governmental Funds**

Governmental Funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision. Both the governmental fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The Town of Sterling adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

#### **Proprietary Funds**

The Town maintains the following type of proprietary fund:

*Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and electric light activities.

#### **Fiduciary Funds**

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

#### **Notes to the Basic Financial Statements**

The Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## THE TOWN AS A WHOLE

The Town is providing condensed financial information for Fiscal Years 2011 and 2010. Our analysis following focuses on the net assets of the Town's governmental and business-type activities. The following table reflects the condensed Statement of Net Assets.

**Table 1**  
**NET ASSETS**

	<b>Governmental Activities</b>		
	<u>2011</u>	<u>2010</u>	<u>Change</u>
<b>Assets</b>			
Current assets	\$ 11,080,313	\$ 11,157,613	\$ (77,300)
Other non-current and restricted assets	7,705,859	8,501,665	(795,806)
Capital assets, net	<u>30,486,981</u>	<u>30,704,441</u>	<u>(217,460)</u>
<b>Total Assets</b>	<u>49,273,153</u>	<u>50,363,719</u>	<u>(1,090,566)</u>
<b>Liabilities</b>			
Current liabilities (excluding debt)	492,843	470,300	22,543
Noncurrent liabilities (excluding debt)	861,556	674,505	187,051
Current debt	1,466,319	1,385,000	81,319
Non-current debt	<u>11,723,414</u>	<u>12,652,000</u>	<u>(928,586)</u>
<b>Total Liabilities</b>	<u>14,544,132</u>	<u>15,181,805</u>	<u>(637,673)</u>
<b>Net Assets</b>			
Capital assets, net of related debt	25,429,016	25,430,608	(1,592)
Restricted	1,935,398	1,590,647	344,751
Unrestricted	<u>7,364,607</u>	<u>8,160,659</u>	<u>(796,052)</u>
<b>Total Net Assets</b>	<u>\$ 34,729,021</u>	<u>\$ 35,181,914</u>	<u>\$ (452,893)</u>

	<b>Business-Type Activities</b>		
	<u>2011</u>	<u>2010</u>	<u>Change</u>
<b>Assets</b>			
Current assets	\$ 3,768,263	\$ 4,576,845	\$ (808,582)
Other non-current and restricted assets	1,771,426	85,010	1,686,416
Capital assets, net	<u>13,506,666</u>	<u>13,156,418</u>	<u>350,248</u>
<b>Total Assets</b>	<u>19,046,355</u>	<u>17,818,273</u>	<u>1,228,082</u>
<b>Liabilities</b>			
Current liabilities (excluding debt)	659,957	1,105,264	(445,307)
Noncurrent liabilities (excluding debt)	1,333,091	2,246,010	(912,919)
Current debt	251,237	213,961	37,276
Non-current debt	<u>2,340,120</u>	<u>2,549,357</u>	<u>(209,237)</u>
<b>Total Liabilities</b>	<u>4,584,405</u>	<u>6,114,592</u>	<u>(1,530,187)</u>
<b>Net Assets</b>			
Capital assets, net of related debt	11,035,120	8,561,817	2,473,303
Restricted	-	748,316	(748,316)
Unrestricted	<u>3,426,830</u>	<u>2,393,548</u>	<u>1,033,282</u>
<b>Total Net Assets</b>	<u>\$ 14,461,950</u>	<u>\$ 11,703,681</u>	<u>\$ 2,758,269</u>



## THE TOWN AS A WHOLE (Continued)

Our next analysis focuses on changes in net assets of the Town's governmental and business-type activities. The following table shows the condensed revenue and expenses of the total government.

**Table 2**  
**CHANGES IN NET ASSETS**

	<b>Governmental Activities</b>		
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>Change</u></b>
<b>REVENUES</b>			
<b>Program Revenues</b>			
Charges for services	\$ 888,489	\$ 990,134	\$ (101,645)
Operating grants and contributions	1,043,319	1,692,484	(649,165)
Capital grants and contributions	355,791	359,770	(3,979)
<b>General Revenues</b>			
Property taxes	14,536,663	14,483,078	53,585
Motor vehicle and other excise taxes	1,693,423	1,635,244	58,179
Intergovernmental unrestricted	631,828	660,920	(29,092)
Investment earnings	85,084	149,654	(64,570)
Other	<u>8,402</u>	<u>1,063</u>	<u>7,339</u>
<b>Total Revenues</b>	<u>19,242,999</u>	<u>19,972,347</u>	<u>(729,348)</u>
 <b>EXPENSES</b>			
General government	1,226,385	1,163,109	63,276
Public safety	2,797,545	2,724,056	73,489
Public works	2,109,888	2,423,295	(313,407)
Education	10,321,591	10,065,360	256,231
Health and human services	259,272	222,496	36,776
Culture and recreation	693,124	706,640	(13,516)
Insurance and employee benefits	1,265,509	1,211,835	53,674
Retirement benefits	533,545	493,980	39,565
State assessments	56,871	63,323	(6,452)
Interest on debt	<u>584,058</u>	<u>643,255</u>	<u>(59,197)</u>
<b>Total Expenses</b>	<u>19,847,788</u>	<u>19,717,349</u>	<u>130,439</u>
 <b>Change in Net Assets before Special Items and Transfer</b>	 (604,789)	 254,998	 (859,787)
 <b>Special Items</b>			
Debt issued on defeasance	24,500		24,500
Water settlement		11,030	(11,030)
Gain on sale of foreclosed property		18,277	(18,277)
 <b>Transfers</b>	 <u>127,396</u>	 <u>108,975</u>	 <u>18,421</u>
 <b>Change in Net Assets</b>	 (452,893)	 393,280	 (846,173)
 Net Assets, Beginning of Year	 <u>35,181,914</u>	 <u>34,788,634</u>	 <u>393,280</u>
 <b>Net Assets, End of Year</b>	 <u>\$ 34,729,021</u>	 <u>\$ 35,181,914</u>	 <u>\$ (452,893)</u>

THE TOWN AS A WHOLE (Continued)

**Table 2**  
**CHANGES IN NET ASSETS**

	<b>Business-Type Activities</b>		
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>Change</u></b>
<b>Program Revenues</b>			
Charges for services	\$ 10,146,151	\$ 9,800,034	\$ 346,117
Operating grants and contributions	329,415	935,017	(605,602)
<b>General Revenues</b>			
Investment earnings	<u>12,278</u>	<u>36,823</u>	<u>(24,545)</u>
<b>Total Revenues</b>	<u>10,487,844</u>	<u>10,771,874</u>	<u>(284,030)</u>
<b>Expenses</b>			
Water	748,128	732,163	15,965
Electric light	<u>8,734,442</u>	<u>9,684,688</u>	<u>(950,246)</u>
<b>Total Expenses</b>	<u>9,482,570</u>	<u>10,416,851</u>	<u>(934,281)</u>
<b>Transfers</b>	<u>(127,396)</u>	<u>(128,975)</u>	<u>1,579</u>
<b>Change in Net Assets</b>	<u>877,878</u>	<u>226,048</u>	<u>651,830</u>
Net Assets, Beginning of Year	<u>13,584,072</u>	<u>11,477,633</u>	<u>2,106,439</u>
<b>Net Assets, End of Year</b>	<u>\$ 14,461,950</u>	<u>\$ 11,703,681</u>	<u>\$ 2,758,269</u>

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$49,190,971 at June 30, 2011.

Net assets of \$36,464,136 (74%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the net assets \$1,935,398 (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$10,791,437 (22%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Governmental Activities**

The net assets of the Governmental Activities decreased by \$452,893, or 1.29%, during fiscal 2011. The decrease is due primarily to the change in accounting method from governmental fund statements to the government-wide statements as explained in the Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

**Business-Type Activities**

The net assets of Business-Type Activities increased by \$877,878, or 6.46%, during 2011.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$9,529,587 a decrease of \$263,453 in comparison with the prior year.

The decrease was mainly due to expenditures exceeding revenues by \$390,849, and net transfers from the business-type funds in the amount of \$127,396.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$9,529,587. Of this year-end total, \$7,308,328 is unassigned fund balance, indicating availability for continuing Town service requirements. As required, the Town adopted the requirements of *Government Accounting Standards Board* Statement Number 54 (GASB #54). This Statement stipulated that stabilization arrangements be reported in the General Fund. At June 30, 2011 the fund balances were comprised of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Non-Spendable:</b>			
Permanent Funds	\$ —	\$ 355,772	\$ 355,772
<b>Restricted:</b>			
Federal and State grants		64,493	64,493
Revolving		302,437	302,437
Gifts and other		689,534	689,534
Permanent expendable funds		104,856	104,856
Debt service	8,668		8,668
<b>Total Restricted</b>	<u>8,668</u>	<u>1,161,320</u>	<u>1,169,988</u>
<b>Assigned:</b>			
Ambulance services		204,404	204,404
Permanent expendable funds		5,000	5,000
Encumbrances & continuing appropriations	425,906		425,906
Overlay surplus – 2012	60,189		60,189
<b>Total Assigned</b>	<u>486,095</u>	<u>209,404</u>	<u>695,499</u>
<b>Unassigned:</b>			
General stabilization	1,459,884		1,459,884
Capital stabilization	5,269,434		5,269,434
General fund	582,331		582,331
Special funds – Deficit		(3,321)	(3,321)
<b>Total Unassigned</b>	<u>7,311,649</u>	<u>(3,321)</u>	<u>7,308,328</u>
<b>Total Governmental Fund Balance</b>	<u>\$ 7,806,412</u>	<u>\$ 1,723,175</u>	<u>\$ 9,529,587</u>

## MAJOR GOVERNMENTAL FUNDS

### General Fund

The *General Fund* is the Town's primary operating fund and the largest source of day-to-day operations. At the end of the current fiscal year, unassigned fund balance of the general fund, including stabilization funds, was \$7,311,649, while total fund balance reached \$7,806,412. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and revenues and transfers. Unassigned fund balance represents 37.94% of total general fund expenditures and total fund balance represents 40.51% of that same amount. Unassigned fund balance represents 38.77% of total general fund revenues including transfers and total fund balance represents 41.39% of that same amount.

The fund balance of the general fund decreased by \$412,079. Of this amount \$766,996 was attributed to the expenditures exceeding revenues and \$354,917 of net transfers from other funds and business-type activities.

Non-spendable fund balances include trust fund amounts where the principal balance is permanently restricted.

### Revenue Trends

	<u>Amount</u>	<u>Percentage of Total</u>	<u>2010-2011 Increase/ (Decrease)</u>	<u>Percentage Change</u>
<b>Revenues and Transfers</b>				
Property taxes, net	\$ 14,498,400	76.9%	\$ 34,990	0.2%
Motor vehicle and other taxes	1,060,698	5.6%	65,909	6.6%
Payments in lieu of taxes	567,021	3.0%	—	0.0%
Penalties and interest on taxes	49,775	0.3%	(1,024)	-2.0%
Intergovernmental aid	1,907,388	10.1%	13,656	0.7%
Investment income	85,084	0.5%	70,667	490.2%
Departmental and other revenues	<u>335,205</u>	<u>1.8%</u>	<u>(46,858)</u>	<u>-12.3%</u>
<b>Total Revenues</b>	18,503,571	98.1%	137,340	0.7%
Transfers from other funds & special items	<u>354,917</u>	<u>1.9%</u>	<u>(382,954)</u>	<u>-51.9%</u>
<b>Total Revenues and Transfers from Other Funds</b>	<u>\$ 18,858,488</u>	<u>100.0%</u>	<u>\$ (245,614)</u>	<u>-1.3%</u>

The Fiscal Year 2011 general fund revenues, transfers from other funds and special items totaled \$18,858,488, a decrease of \$(245,614) from the previous year.

The property tax increase of \$34,990 is primarily due to the 2.5% annual increase allowed by Proposition 2 ½ and annual new growth as calculated by the Board of Assessors.

The motor vehicle and other tax increase of \$65,909 is a result of more new car sales reversing the negative trend of the past few years.

The \$13,656 increase in Intergovernmental aid is due primarily to a \$24,433 decrease in State Lottery Aid offset by an increase in veterans' benefits of \$47,409.

The \$70,667 increase in Investment Income is the result of stabilization activity reporting in the General Fund as required by GASB #54.

### **Expenditure Trends**

	<u>Amount</u>	<u>Percentage of Total</u>	<u>2010-2011 Increase/ (Decrease)</u>	<u>Percentage Change</u>
<b>Expenditures and Transfers</b>				
General government	\$ 1,034,342	5.4%	\$ 94,696	10.1%
Public safety	2,461,602	12.8%	164,253	7.1%
Public works	1,725,327	9.0%	81,995	5.0%
Education	9,853,539	51.1%	256,231	2.7%
Health and human services	213,842	1.1%	33,890	18.8%
Culture and recreation	429,669	2.2%	41,832	10.8%
Insurance and employee benefits	980,680	5.1%	86,642	9.7%
Retirement benefits	533,545	2.8%	39,565	8.0%
State assessments	56,871	0.3%	(6,452)	-10.2%
Debt service	<u>1,981,150</u>	<u>10.3%</u>	<u>(63,476)</u>	<u>-3.1%</u>
<b>Total Expenditures</b>	<b>19,270,567</b>	<b>100.0%</b>	<b>729,176</b>	<b>-3.9%</b>
 Transfers to other funds	 <u>—</u>	 <u>0.0%</u>	 <u>(711,532)</u>	 <u>-100.0%</u>
<b>Total Expenditures and Transfers to Other Funds</b>	<b><u>\$ 19,270,567</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 17,644</u></b>	<b><u>-0.1%</u></b>

The Fiscal Year 2011 general fund expenditures and transfers to other funds totaled \$19,270,567, an increase of \$17,644 from the previous fiscal year.

The largest increase in expenditures, in education, was due to assessment increases of \$256,231 to the regional school districts.

### **STABILIZATION FUNDS**

The *General Stabilization Fund* has an accumulated fund balance of \$1,459,884. The fund balance of the *General Stabilization Fund* decreased by \$37,340. Investment income accounted for \$11,789 of the increase and a net amount of \$49,129 was transferred to the general fund.

The *Capital Stabilization Fund* has accumulated a fund balance of \$5,269,434. The fund balance of the *Capital Stabilization Fund* decreased by \$71,827. Of this amount, \$63,420 was attributed to investment income and a net amount of \$135,247 was transferred to the general fund.

### **Proprietary Funds**

The *Proprietary Funds* statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

#### ***Major Proprietary Funds***

The *Water Fund* is used to finance the operations of the Town's water system. The fund shows an increase of \$272,601, attributable to operational revenue exceeding operating costs by \$440,787, intergovernmental revenues (Massachusetts Water Pollution Abatement Trust subsidies) of \$11,152, other income of \$10,167, interest expense of \$104,109 and net transfers to the general fund of \$85,396.

The *Electric Light Fund* is used to account for activities of the government's electric distribution operations. The fund at December 31, 2010 shows an increase of \$605,277, attributed to operating expenditures exceeding revenues by \$334,361, intergovernmental income from FEMA and MEMA of \$233,984, investment income of \$12,278, interest expense of \$4,760, other expense of \$2,698 and transfers to the general fund of \$42,000 during the calendar year.

## GENERAL FUND BUDGETARY HIGHLIGHTS

	<u>Original Budget 2011</u>	<u>Special Town Meeting Articles 2011</u>	<u>Final Budget 2011</u>	<u>Final Budget 2010</u>
General government	\$ 1,115,528	\$ (28,120)	\$ 1,087,408	\$ 1,035,116
Public safety	2,442,658	17,000	2,459,658	2,445,216
Public works	1,743,452	(8,000)	1,735,452	1,659,337
Education	9,863,656	—	9,863,656	9,597,985
Health and human services	179,203	44,800	224,003	181,896
Culture and recreation	505,916	(50,000)	455,916	388,880
Insurance and employee benefits	1,241,660	—	1,241,660	1,138,000
Retirement benefits	350,633	—	350,633	313,620
State and County charges	56,951	(80)	56,871	63,023
Debt service	1,981,151	—	1,981,151	2,044,628
<b>Total</b>	<b>\$ 19,480,808</b>	<b>\$ (24,400)</b>	<b>\$ 19,456,408</b>	<b>\$ 18,867,701</b>

The final General Fund expenditure budget for Fiscal Year 2011 was \$19,456,408. This was an increase of \$588,707 or 3.12 percent over the previous year's budget.

There was a decrease of \$24,400 between the original expenditure budget and the final expenditure budget. The decrease is attributable to the Town amending specific expenditure line items of the budget through the Town Meeting process. Included in the decrease is \$50,000 appropriated from the Stabilization Fund for recreation purposes, which was not used.

## CAPITAL ASSETS

The Town's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30, 2011, (December 31, 2010 for the Electric Light Fund) amounts to \$25,429,016 and \$11,035,120 respectively.

The investment in capital assets includes land, construction in progress, buildings and improvements, machinery, equipment and furnishings and infrastructure.

Major capital asset events during the current fiscal year in the Governmental Activities included the following:

Depreciation expense of \$1,265,916.

Additions of the following:

- Fire Pumper/Tanker \$ 525,000
- Police Vehicles 29,417
- Public Works Trailer 24,453
- Public Works Vehicle 83,100
- Road Infrastructure Improvements 346,486
- Playground Equipment 40,000

Major capital asset events during the current fiscal year in the business-type funds included the following:

Depreciation expense of \$572,270.

Additions of the following:

In the Electric Light Fund:

- Construction in Progress \$ 457,000
- Distribution Plant 511,227
- General Plant 172,832

## DEBT ADMINISTRATION

Debt is considered a liability of the governmental and business-type activities. The debt summary for Fiscal Year 2011 is presented below:

	<b>Governmental Activities <u>2011</u></b>	<b>Business-Type Activities <u>2011</u></b>	<b><u>Total</u> <u>2011</u></b>
<b>Long-Term Debt Payable</b>			
Outstanding Bonds and Notes Payable at June 30, 2010	\$14,037,000	\$ 2,763,318	\$16,800,318
<b>Add:</b> Debt Issued	—	—	—
<b>Less:</b> Debt Retired	<u>(1,409,500)</u>	<u>(204,461)</u>	<u>(1,613,961)</u>
Outstanding Bonds and Notes Payable At June 30, 2011	<u>\$12,627,500</u>	<u>\$ 2,558,857</u>	<u>\$15,186,357</u>

At June 30, 2011, the Town had bonded debt outstanding of \$15,186,357, which included \$12,627,500 for governmental activities and \$2,558,857 for business-type activities. All debt is a general obligation of the Town, although Water and Electric Light debt service payments are made from resources of the enterprise funds.

### Governmental Activities:

School Construction	\$ 8,905,000
Griffin Road Land	82,000
Library Renovations	455,000
Fire Station	1,350,000
Police and Fire Renovations	1,580,000
New Fire Truck	255,000
<b>Total General Debt</b>	<u>12,627,500</u>

### Business-Type Debt:

Water Tank	798,500
Water Tank Lands	44,000
Water Disinfecting	295,000
Taft Road Water Mains	450,000
Route 12 Water	265,000
Route 12 Water	706,357
<b>Total Business Debt</b>	<u>2,558,857</u>

**Grand Total** \$ 15,186,357

## ECONOMIC FACTORS

The 2011 average single family tax bill for the Town was \$4,417 based upon an average single family home value of \$296,439. The State's average single family tax bill was \$4,537 for the same period.

The total property tax levy for Fiscal Year 2012 is \$14,927,952, an increase of 2.1% or \$311,798 more than the 2011 tax levy.

The Town's 2011 unemployment rate was determined to be 7.4% which was below the national percentage of 9.10 percent.

The Town's bonds are rated Aa2 by Moody's Investor Services.

The Town's combined capital and general stabilization funds totaled \$6,729,318 which is approximately thirty-five percent of the total 2011 Town budget. This percentage ranks very favorably when compared to other Massachusetts communities.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Sterling's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town Hall, One Park Street, Sterling, Massachusetts 01564.



## **BASIC FINANCIAL STATEMENTS**

**TOWN OF STERLING, MASSACHUSETTS**  
**Statement of Net Assets**  
**June 30, 2011**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 4,509,449	\$ 1,118,899	\$ 5,628,348
Investments	4,893,111		4,893,111
Receivables – net of allowance for uncollectibles:			
Taxes receivable	649,964		649,964
User fees and other	144,760	766,613	911,373
Intergovernmental	881,484		881,484
Loans	1,545		1,545
Materials and supplies		438,882	438,882
Prepaid expenses		1,039,452	1,039,452
Purchase power working capital		395,803	395,803
Restricted assets:			
Intergovernmental receivables		8,614	8,614
<b>Total Current Assets</b>	<u>11,080,313</u>	<u>3,768,263</u>	<u>14,848,576</u>
<b>Non-Current Assets:</b>			
Cash		298,156	298,156
Investments		794,572	794,572
Receivables, net of allowance for uncollectibles:			
Intergovernmental	7,339,849		7,339,849
Loans	10,238		10,238
Deferred power contract		600,000	600,000
Restricted assets:			
Investments	355,772		355,772
Intergovernmental receivables		78,698	78,698
Capital assets, net of accumulated depreciation:			
Non-Depreciable	1,531,506	1,107,456	2,638,962
Depreciable	28,955,475	12,399,210	41,354,685
<b>Total Non-Current Assets</b>	<u>38,192,840</u>	<u>15,278,092</u>	<u>53,470,932</u>
<b>Total Assets</b>	<u>49,273,153</u>	<u>19,046,355</u>	<u>68,319,508</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Warrants and accounts payable	158,035	549,028	707,063
Accrued payroll and other expenses	138,905	89,569	228,474
Accrued interest payable	155,382	18,657	174,039
Other liabilities	29,137		29,137
Current portion of long-term liabilities:			
Landfill post-closure care costs	8,420		8,420
Compensated absences	2,964		2,964
Lease obligation payable	74,819	32,500	107,319
Bonds and notes payable	1,391,500	212,826	1,604,326
<b>Total Current Liabilities</b>	<u>1,959,162</u>	<u>902,580</u>	<u>2,861,742</u>
Current liabilities payable from restricted assets:			
Accrued interest payable		2,703	2,703
Current portion of bonds and notes payable		5,911	5,911
<b>Total Current Liabilities Payable from Restricted Assets</b>	<u>–</u>	<u>8,614</u>	<u>8,614</u>
<b>Non-current liabilities:</b>			
Customer deposits		244,483	244,483
Landfill post-closure care costs	109,460		109,460
Compensated absences	149,470	4,416	153,886
Other post-employment benefits payable	602,626	633,539	1,236,165
Rate stabilization reserve		450,653	450,653
Lease obligation payable	487,414		487,414
Bonds and notes payable	11,236,000	2,340,120	13,576,120
<b>Total Non-Current Liabilities</b>	<u>12,584,970</u>	<u>3,673,211</u>	<u>16,258,181</u>
<b>Total Liabilities</b>	<u>14,544,132</u>	<u>4,584,405</u>	<u>19,128,537</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	25,429,016	11,035,120	36,464,136
Restricted for:			
Grants and other statutory restrictions	1,461,105		1,461,105
Debt service	8,668		8,668
Permanent funds:			
Expendable	109,853		109,853
Non-expendable	355,772		355,772
Unrestricted	7,364,607	3,426,830	10,791,437
<b>Total Net Assets</b>	<u>\$ 34,729,021</u>	<u>\$ 14,461,950</u>	<u>\$ 49,190,971</u>

See accompanying notes to basic financial statements.

**TOWN OF STERLING, MASSACHUSETTS**  
**Statement of Activities**  
**Year Ended June 30, 2011**

Functions/Programs	Program Revenues			Net (Expense) Revenue And Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities
<b>Governmental Activities:</b>						
General government	\$ 1,226,385	\$ 88,659	\$ 127,699	\$	\$ (1,010,027)	\$ (1,010,027)
Public safety	2,797,545	454,322	110,668		(2,232,555)	(2,232,555)
Public works	2,109,888	35,174	44,209	355,791	(1,674,714)	(1,674,714)
Education	10,321,591		39,001		(10,282,590)	(10,282,590)
Health and human services	259,272	88,000	93,658		(77,614)	(77,614)
Culture and recreation	693,124	222,334	167,370		(303,420)	(303,420)
Insurance and employee benefits	1,265,509		182,913		(1,265,509)	(1,265,509)
Retirement benefits	533,545				(350,632)	(350,632)
State assessments	56,871				(56,871)	(56,871)
Interest on debt	584,058		277,801		(306,257)	(306,257)
<b>Total Governmental Activities</b>	<b>19,847,788</b>	<b>888,489</b>	<b>1,043,319</b>	<b>355,791</b>	<b>(17,560,189)</b>	<b>(17,560,189)</b>
<b>Business Type Activities:</b>						
Water	748,128	1,084,806	21,319			357,997
Municipal Light Plant	8,734,442	9,061,345	308,096			634,999
<b>Total Business-Type Activities</b>	<b>9,482,570</b>	<b>10,146,151</b>	<b>329,415</b>	<b>-</b>	<b>-</b>	<b>992,996</b>
<b>TOTAL GOVERNMENT</b>	<b>\$ 29,330,358</b>	<b>\$ 11,034,640</b>	<b>\$ 1,372,734</b>	<b>\$ 355,791</b>	<b>\$ (17,560,189)</b>	<b>\$ (16,567,193)</b>
<b>General Revenues:</b>						
Property taxes levied for general purposes					\$ 14,536,663	\$ 14,536,663
Motor vehicle and other excise taxes					1,076,627	1,076,627
Penalties in lieu of taxes					567,021	567,021
Penalties and interest on taxes					49,775	49,775
State Aid not restricted to specific programs					631,828	631,828
Unrestricted investment earnings					85,084	97,362
Other revenues					8,402	8,402
Special item:						
Debt issued on defeasance					24,500	24,500
<b>Transfers</b>					<b>127,396</b>	<b>(127,396)</b>
<b>Total General Revenues and Transfers</b>					<b>17,107,296</b>	<b>16,992,178</b>
<b>Change in Net Assets</b>					<b>(452,893)</b>	<b>424,985</b>
Net Assets – Beginning					<b>35,181,914</b>	<b>13,584,072</b>
<b>Net Assets – Ending</b>					<b>\$ 34,729,021</b>	<b>\$ 49,190,971</b>

See accompanying notes to basic financial statements.

**TOWN OF STERLING, MASSACHUSETTS**

**Governmental Funds Balance Sheet**

**June 30, 2011**

	<b><u>General Fund</u></b>	<b><u>Non-Major Governmental Funds</u></b>	<b><u>Total Governmental Fund</u></b>
<b>ASSETS</b>			
Pooled cash and cash equivalents	\$ 3,514,067	\$ 995,382	\$ 4,509,449
Investments	4,506,938	386,173	4,893,111
Receivables – net of allowance for uncollectibles:			
Taxes receivable	649,964		649,964
Departmental and other		144,760	144,760
Intergovernmental	8,177,643	43,690	8,221,333
Loans		11,783	11,783
Restricted investments	<u>                    </u>	<u>355,772</u>	<u>355,772</u>
<b>Total Assets</b>	<b><u>\$ 16,848,612</u></b>	<b><u>\$ 1,937,560</u></b>	<b><u>\$ 18,786,172</u></b>
<b>Liabilities:</b>			
Warrants payable	\$ 147,654	\$ 10,381	\$ 158,035
Accrued payroll	135,135	3,770	138,905
Other liabilities	29,137		29,137
Deferred revenue:			
Property taxes	598,506		598,506
Other	<u>8,131,768</u>	<u>200,234</u>	<u>8,332,002</u>
<b>Total Liabilities</b>	<b><u>9,042,200</u></b>	<b><u>214,385</u></b>	<b><u>9,256,585</u></b>
<b>Fund Balances:</b>			
Non-spendable		355,772	355,772
Restricted	8,668	1,161,320	1,169,988
Assigned	486,095	209,404	695,499
Unassigned	<u>7,311,649</u>	<u>(3,321)</u>	<u>7,308,328</u>
<b>Total Fund Balances</b>	<b><u>7,806,412</u></b>	<b><u>1,723,175</u></b>	<b><u>9,529,587</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 16,848,612</u></b>	<b><u>\$ 1,937,560</u></b>	<b><u>\$ 18,786,172</u></b>

See accompanying notes to basic financial statements.

**TOWN OF STERLING, MASSACHUSETTS**

**Reconciliation of the Governmental Funds Balance Sheet  
Total Fund Balances to the Statement of Net Assets**

**June 30, 2011**

<b>Total Fund Balance – Total Governmental Funds</b>	<b>\$ 9,529,587</b>
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Amounts reported for governmental activities in the  
Statement of Net Assets are different because:

Capital assets (net) used in governmental activities are not financial resources and therefore are not reported in the funds.	30,486,981
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Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis.	8,930,508
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Long-term liabilities are not due and payable in the  
current period and therefore are not reported in  
governmental funds:

Landfill post-closure care costs	\$ (117,880)	
Compensated absences	(152,434)	
Other post-employment benefits payable	(602,626)	
Lease obligations payable	(562,233)	
Bonds payable	<u>(12,627,500)</u>	(14,062,673)

In Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, interest is not reported until due.	<u>(155,382)</u>
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<b>Net Assets of Governmental Activities</b>	<b><u>\$ 34,729,021</u></b>
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See accompanying notes to basic financial statements.

**TOWN OF STERLING, MASSACHUSETTS**

**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds**

**June 30, 2011**

	<b>General Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Property taxes, net	\$ 14,498,400	\$	\$ 14,498,400
Motor vehicle and other excise taxes	1,060,698		1,060,698
Payments in lieu of taxes	567,021		567,021
Penalties and interest on taxes	49,775		49,775
Intergovernmental aid	1,724,475	451,232	2,175,707
Intergovernmental on-behalf payments	182,913		182,913
Investment income	85,084	10,368	95,452
Charges for services:			
Ambulance		246,661	246,661
Revolving and other		361,279	361,279
Licenses, permits, fines and fees	335,205		335,205
Other revenues		351,642	351,642
<b>Total Revenues</b>	<u>\$ 18,503,571</u>	<u>\$ 1,421,182</u>	<u>\$ 19,924,753</u>
<b>EXPENDITURES</b>			
Current:			
General government	\$ 1,034,342	\$ 153,932	\$ 1,188,274
Public safety	2,461,602	128,009	2,589,611
Public works	1,725,327	451,576	2,176,903
Education	9,853,539		9,853,539
Health and human services	213,842	53,042	266,884
Culture and recreation	429,669	258,476	688,145
Insurance and employee benefits	980,680		980,680
Retirement benefits	533,545		533,545
State assessments	56,871		56,871
Debt service:			
Principal	1,385,000		1,385,000
Interest	596,150		596,150
<b>Total Expenditures</b>	<u>19,270,567</u>	<u>1,045,035</u>	<u>20,315,602</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(766,996)</u>	<u>376,147</u>	<u>(390,849)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in – Enterprise	127,396		127,396
Operating transfers in	227,521		227,521
Operating transfers out	<u>–</u>	<u>(227,521)</u>	<u>(227,521)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>354,917</u>	<u>(227,521)</u>	<u>127,396</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(412,079)</u>	<u>148,626</u>	<u>(263,453)</u>
Fund Balances, Beginning of Year			
As adjusted	<u>8,218,491</u>	<u>1,574,549</u>	<u>9,793,040</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 7,806,412</u>	<u>\$ 1,723,175</u>	<u>\$ 9,529,587</u>

See accompanying notes to basic financial statements.

**TOWN OF STERLING, MASSACHUSETTS**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities**

**Year Ended June 30, 2011**

**Net Change in Fund Balances – Total Governmental Funds** **\$ (263,453)**

Amounts reported for governmental activities in the Statement  
of Activities are different because:

Governmental funds report capital outlay as expenditures  
However, in the Statement of Activities, the cost of those  
assets is allocated over their estimated useful lives and  
are reported as depreciation expense:

Capital Outlay Purchases	\$ 1,048,456	
Depreciation	<u>(1,265,916)</u>	(217,460)

Revenue in the Statement of Activities that do not provide  
current financial resources are fully deferred in the  
Statement of Revenues, Expenditures and Changes  
in Fund Balances. Therefore, the recognition of  
revenue for various types of accounts receivable  
(i.e., real estate and personal property, motor vehicle  
excise, etc.) differ between the two statements. This  
amount represents the net change in deferred revenue. (682,298)

The issuance of long-term debt (e.g., bonds and leases)  
provides current financial resources to governmental  
funds, while the repayment of the principal of long-term  
debt consumes the financial resources of governmental  
funds. Neither transaction, however, has any effect  
on net assets:

Repayment of Debt Principal		1,409,500
Capital Lease Obligation		(437,203)

Some expenses reported in the Statement of Activities do  
not require the use of current financial resources  
and, therefore, are not reported as expenditures in  
governmental funds:

Net Change in Landfill Post-Closure Care Costs	\$ 5,992	
Net Change in Compensated Absences	4,766	
Net Change in OPEB Liability	(284,829)	
Net Change in Accrued Interest on Long-Term Debt	<u>12,092</u>	<u>(261,979)</u>

**Change in Net Assets of Governmental Activities** **\$ (452,893)**

See accompanying notes to basic financial statements.

**TOWN OF STERLING, MASSACHUSETTS**  
**Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund**  
**Year Ended June 30, 2011**

	Amounts Carried Forward From Prior Year	Budgeted Amounts		Actual	Amounts Carried Forward To Next Year	Variance With Final Budget Positive (Negative)
		Original Budget	Final Budget	Budgetary Basis		
<b>REVENUES</b>						
Property taxes, net	\$	\$ 14,517,300	\$ 14,517,300	\$ 14,517,150	\$	\$ (150)
Motor vehicle and other excise taxes		988,000	988,000	1,060,698		72,698
Payments in lieu of taxes		567,021	567,021	567,021		–
Penalties and interest on taxes		51,000	51,000	49,775		(1,225)
Intergovernmental aid		1,682,538	1,682,538	1,724,475		41,937
Investment income		20,000	20,000	9,874		(10,126)
Licenses, permits, fines and fees		444,700	444,700	335,205		(109,495)
<b>Total Revenues</b>		<u>18,270,559</u>	<u>18,270,559</u>	<u>18,264,198</u>	<u>–</u>	<u>(6,361)</u>
<b>EXPENDITURES</b>						
Current:						
General government	208,139	1,115,528	1,087,408	1,034,342	173,231	87,974
Public safety	92,014	2,442,658	2,459,658	2,461,602	27,478	62,592
Public works	161,139	1,743,452	1,735,452	1,725,327	157,001	14,263
Education		9,863,656	9,863,656	9,853,539		10,117
Health and human services	46,876	179,203	224,003	213,842	46,937	10,100
Culture and recreation	6,357	505,916	455,916	429,669	21,260	11,344
Insurance and employee benefits	87	1,241,660	1,241,660	980,680		261,067
Retirement benefits		350,633	350,633	350,632	1	–
State assessments		56,951	56,871	56,871		–
Debt service:						
Principal		1,385,000	1,385,000	1,385,000		–
Interest		596,151	596,151	596,150		1
<b>Total Expenditures</b>	<u>514,612</u>	<u>19,480,808</u>	<u>19,456,408</u>	<u>19,087,654</u>	<u>425,907</u>	<u>457,459</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(514,612)	(1,210,249)	(1,185,849)	(823,456)	(425,907)	451,098
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in – Enterprise		127,396	127,396	127,396		–
Operating transfers in		226,606	226,606	227,521		915
Transfer from Stabilization		756,247	731,847	731,847		–
Transfer to Stabilization			(547,471)	(547,471)		–
Transfer from free cash and other reserves		100,000	647,471	647,471		–
<b>Total Other Financing Sources (Uses)</b>	<u>–</u>	<u>1,210,249</u>	<u>1,185,849</u>	<u>1,186,764</u>	<u>–</u>	<u>915</u>

See accompanying notes to basic financial statements.



**TOWN OF STERLING, MASSACHUSETTS**  
**Statement of Net Assets – Proprietary Funds**  
June 30, 2011

**Business-Type Activities**

	<b>Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Electric Light Fund</b>	<b>Total</b>
	<b>Dec. 31, 2010</b>	<b>Dec. 31, 2010</b>	
<b>ASSETS</b>			
<b>Current:</b>			
Pooled cash and cash equivalents	\$ 516,125	\$ 602,774	\$ 1,118,899
Receivables – net of allowance for uncollectibles:			
User fees and other	6,112	760,501	766,613
Materials and supplies		438,882	438,882
Prepaid expenses		1,039,452	1,039,452
Purchase power working capital		395,803	395,803
Restricted assets:			
Intergovernmental receivables	8,614		8,614
<b>Total Current Assets</b>	<u>530,851</u>	<u>3,237,412</u>	<u>3,768,263</u>
<b>Non-Current</b>			
Cash and cash equivalents		298,156	298,156
Investments		794,572	794,572
Restricted assets:			
Intergovernmental receivables	78,698		78,698
Deferred power contract		600,000	600,000
Capital assets, net of accumulated depreciation:			
Nondepreciable	147,200	960,256	1,107,456
Depreciable	4,345,374	8,053,836	12,399,210
<b>Total Non-Current Assets</b>	<u>4,571,272</u>	<u>10,706,820</u>	<u>15,278,092</u>
<b>Total Assets</b>	<u>5,102,123</u>	<u>13,944,232</u>	<u>19,046,355</u>
<b>LIABILITIES</b>			
<b>Current:</b>			
Warrants and accounts payable	36,603	512,425	549,028
Accrued payroll and other expenses	7,848	81,721	89,569
Accrued interest payable	18,657		18,657
Current portion of long-term liabilities:			
Capital lease payable		32,500	32,500
Bonds payable	212,826		212,826
Current liabilities from restricted assets:			
Accrued interest	2,703		2,703
Bonds payable	5,911		5,911
<b>Total Current Liabilities</b>	<u>284,548</u>	<u>626,646</u>	<u>911,194</u>
<b>Non-Current:</b>			
Customer deposits		244,483	244,483
Compensated absences	4,416		4,416
Other post-employment benefits payable	38,408	595,131	633,539
Rate stabilization reserve		450,653	450,653
Bonds payable	2,340,120		2,340,120
<b>Total Non-Current Liabilities</b>	<u>2,382,944</u>	<u>1,290,267</u>	<u>3,673,211</u>
<b>Total Liabilities</b>	<u>2,667,492</u>	<u>1,916,913</u>	<u>4,584,405</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,021,028	9,014,092	11,035,120
Unrestricted	413,603	3,013,227	3,426,830
<b>Total Net Assets</b>	<u>\$ 2,434,631</u>	<u>\$ 12,027,319</u>	<u>\$ 14,461,950</u>

See accompanying notes to basic financial statements.

**TOWN OF STERLING, MASSACHUSETTS**

**Statement of Revenues, Expenditures and Changes in Fund Net Assets – Proprietary Funds**

**Year Ended June 30, 2011**

**Business-Type Activities**

	<b>Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Electric Light Fund As of 12-31-10</b>	<b>Total Funds</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,084,806	\$ 9,061,345	\$ 10,146,151
<b>Total Operating Revenues</b>	<u>1,084,806</u>	<u>9,061,345</u>	<u>10,146,151</u>
<b>OPERATING EXPENSES</b>			
Salary and wages	173,546		173,546
Operations	321,730	8,303,457	8,625,187
Depreciation	148,743	423,527	572,270
<b>Total Operating Expenses</b>	<u>644,019</u>	<u>8,726,984</u>	<u>9,371,003</u>
<b>OPERATING INCOME (LOSS)</b>	<u>440,787</u>	<u>334,361</u>	<u>775,148</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Intergovernmental	11,152	233,984	245,136
Other income	10,167		10,167
Other expenses		(2,698)	(2,698)
Investment income		12,278	12,278
Interest expense	(104,109)	(4,760)	(108,869)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(82,790)</u>	<u>238,804</u>	<u>156,014</u>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	357,997	573,165	931,162
<b>OPERATING TRANSFERS</b>			
Transfer in		74,112	74,112
Transfers (Out)	(85,396)	(42,000)	(127,396)
<b>Total Operating Transfers</b>	<u>(85,396)</u>	<u>32,112</u>	<u>(53,284)</u>
<b>CHANGE IN NET ASSETS</b>	<u>272,601</u>	<u>605,277</u>	<u>877,878</u>
Net Assets, Beginning of Year	<u>2,162,030</u>	<u>11,422,042</u>	<u>13,584,072</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 2,434,631</u>	<u>\$ 12,027,319</u>	<u>\$ 14,461,950</u>

See accompanying notes to basic financial statements.

**TOWN OF STERLING, MASSACHUSETTS**  
**Statement of Cash Flows – Proprietary Funds**  
**Year Ended June 30, 2011**

	Business-Type Activities		
	Enterprise Funds		
	Water Fund	Electric Light Fund As of 12-31-10	Total Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 1,091,149	\$ 8,870,638	\$ 9,961,787
Payments to vendors	(284,724)	(6,496,725)	(6,781,449)
Payments for benefits		(991,316)	(991,316)
Payments to employees	(169,850)	(1,145,287)	(1,315,137)
Payments in lieu of taxes		(42,000)	(42,000)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>636,575</u>	<u>195,310</u>	<u>831,885</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental aid		233,984	233,984
Interest expense		(4,760)	(4,760)
Transfers (to) other funds	(85,396)		(85,396)
<b>Net Cash Provided by (Used for) Noncapital Financing Activities</b>	<u>(85,396)</u>	<u>229,224</u>	<u>143,828</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Other income	19,667		19,667
Intergovernmental – Subsidy	17,265		17,265
Acquisition and construction of capital assets		(1,076,212)	(1,076,212)
Principal payments on bonds	(213,961)		(213,961)
Interest expense	(106,401)		(106,401)
<b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b>	<u>(283,430)</u>	<u>(1,076,212)</u>	<u>(1,359,642)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income		15,599	15,599
Net use and additions to depreciation fund		(497,121)	(497,121)
Rate stabilization reserve		450,653	450,653
<b>Net Cash Provided by (Used for) Investing Activities</b>	<u>—</u>	<u>(30,869)</u>	<u>(30,869)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>267,749</u>	<u>(682,547)</u>	<u>(414,798)</u>
Cash and Cash Equivalents, Beginning of Year	248,376	1,886,947	2,135,323
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 516,125</u>	<u>\$ 1,204,400</u>	<u>\$ 1,720,525</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>			
<b>OPERATING INCOME (LOSS)</b>	\$ 440,787	\$ 334,361	\$ 775,148
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:			
Depreciation	148,743	423,527	572,270
Capital projects		74,112	74,112
Payments in lieu of taxes		(42,000)	(42,000)
Allowance for doubtful accounts		5,000	5,000
Change in assets and liabilities:			
(Increase) decrease in assets:			
User charges and other receivables	6,343	(222,349)	(216,006)
Materials and supplies		114,745	114,745
Prepaid expenses		(514,372)	(514,372)
Purchase power working capital		556,684	556,684
Deferred power contract		(600,000)	(600,000)
Increase (decrease) in liabilities:			
Accounts payable	21,281	(215,858)	(194,577)
Accrued expenses	3,696	(9,072)	(5,376)
Customer advances for construction		(44,317)	(44,317)
Customer deposits		(3,153)	(3,153)
Capital lease		32,500	32,500
Compensated absences	(534)		(534)
Other post-employment benefits obligation	16,259	305,502	321,761
<b>Total Adjustments</b>	<u>195,788</u>	<u>(139,051)</u>	<u>56,737</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>\$ 636,575</u>	<u>\$ 195,310</u>	<u>\$ 831,885</u>

See accompanying notes to basic financial statements.

**TOWN OF STERLING, MASSACHUSETTS**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**Year Ended June 30, 2011**

	<b><u>Private Purpose Trust Funds</u></b>	<b><u>Agency Funds</u></b>
<b>ASSETS</b>		
Restricted cash and cash equivalents	\$	\$ 21,671
Restricted investments	<u>177,816</u>	<u>-</u>
<b>Total Assets</b>	<u>177,816</u>	<u>21,671</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Warrants payable		147
Performance deposits held	<u>          </u>	<u>21,524</u>
<b>Total Liabilities</b>	<u>-</u>	<u>21,671</u>
 <b>NET ASSETS</b>		
<b>Total Net Assets Held in Trust</b>	<u>\$ 177,816</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

**TOWN OF STERLING, MASSACHUSETTS**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**Year Ended June 30, 2011**

	<b>Private Purpose Trust Funds</b>
<b>ADDITIONS</b>	
Investment income	\$ 2,234
<b>Total Additions</b>	<u>2,234</u>
 <b>DEDUCTIONS</b>	
Educational scholarships	<u>(5,500)</u>
<b>Total Deductions</b>	<u>(5,500)</u>
 <b>CHANGE IN NET ASSETS</b>	 (3,266)
 <b>NET ASSETS</b>	
Beginning of Year	<u>181,082</u>
End of Year	<u>\$ 177,816</u>

See accompanying notes to basic financial statements.

## **TOWN OF STERLING, MASSACHUSETTS**

### **Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic accounting financial statements of the Town of Sterling have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein:

##### **A. Reporting Entity**

The Town of Sterling (the Town) is a political subdivision of the Commonwealth of Massachusetts, located in Worcester County. The Town was incorporated in 1781. The Town provides general governmental services to its residents, including public safety, public works, education (K-12), health and human services and culture and recreation. The Town is governed by an elected three member Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete.

##### **Sterling Housing Authority**

The Housing Authority is a separate autonomous board. In addition, the Housing Authority determines its own budget and has no special financing relationship with the Town. Therefore, the financial activities of the Housing Authority have been excluded from these financial statements.

##### **Sterling Municipal Electric Light Department**

The condensed financial statements of the Sterling Electric Light Department are included in the Proprietary Fund Types column and Business-Type Activity column of the basic financial statements. The complete financial statements can be obtained from the administration offices at 50 Main Street, Sterling, Massachusetts.

##### **B. Joint Ventures**

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in two joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing educational services.

##### **Wachusett Regional School District**

The School District, created in 1950 as a body politic and corporate and political subdivision of the Commonwealth of Massachusetts, provides education to students in grades kindergarten through twelve (K-12) from five (5) member towns.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Joint Ventures (Continued)**

**Wachusett Regional School District (Continued)**

The School District is governed by a twenty (20)-member board composed of the representatives of the member towns. The Town is indirectly liable for debt and other expenses incurred by the School District. The Town's annual operation assessment for the School District for Fiscal Year 2011 amounted to \$9,315,395, which represented approximately 20 percent of the total assessments to the five (5) towns.

Separate financial statements may be obtained by writing to the Treasurer of the District at Jefferson School, 1745 Main Street, Jefferson, MA 01522.

**Montachusett Regional Vocational Technical School District**

The School District, created in 1965 as a body politic and corporate and political subdivision of the Commonwealth of Massachusetts, provides education to students in grades nine through twelve (9-12) from the Towns of Ashburnham, Ashby, Athol, Barre, Fitchburg, Gardner, Harvard, Holden, Hubbardston, Lunenburg, Petersham, Phillipston, Princeton, Royalston, Sterling, Templeton, Westminster and Winchendon. The School District is governed by a twenty-two (22)-member board composed of the representatives of the member Towns. The Town is indirectly liable for debt and other expenses incurred by the School District. The Town's annual assessment for the School District for Fiscal Year 2011 amounted to \$538,144, which represented approximately 5 percent of the total assessments to the eighteen (18) towns.

Separate financial statements may be obtained by writing to the Treasurer of the District at 1050 Westminster Street, Fitchburg, MA 01420.

**C. Implementation of New Accounting Principle**

In fiscal year 2011, the Town adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes criteria for classifying governmental fund balances into specifically defined classifications. Classifications are hierarchical and are based primarily on the extent to which the Town is bound to honor constraints on specific purposes for which amounts in the funds may be spent. Application of the Statement requires the Town to classify and report amounts in the appropriate fund balance classifications. The Town's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of restricted, committed, assigned or unassigned.

**D. Government-Wide and Fund Financial Statements**

**Government-Wide Financial Statements**

The Statement of Net Assets and the Statement of Activities display information about the Town as a whole. These statements include the financial activities of the Primary Government, except for fiduciary funds. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Government-Wide and Fund Financial Statements (Continued)**

**Government-Wide Financial Statements (Continued)**

The Statement of Net Assets presents the financial condition of the governmental-type activities of the Town at year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operation or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program.

Revenues which are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Town.

**Fund Financial Statements**

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information to the Town at this more detailed level. The focus of Governmental Fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary Funds are reported by type.

***Major Fund Criteria***

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental funds), and
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding element for all governmental funds combined.

Additionally, any other governmental fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.



**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**Government-Wide Financial Statements**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide financial statements apply all applicable Financial Accounting Standards Boards (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a specific function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

Property taxes and other items not identifiable as program revenues are reported as general revenues.

Interfund activity has been eliminated from the government-wide financial statements.

**Fund Financial Statements**

**Governmental Fund** financial statements are reported using the flow of *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Investment income is susceptible to accrual. Other receipts and revenues become measurable and available when the cash is received and are recognized as revenue at that time.

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

**Fund Financial Statements (Continued)**

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

**General Fund**

The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Town for any purpose provided it is expended or transferred according to the general laws of Massachusetts.

**Proprietary Funds**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The Town's proprietary funds are all classified as Enterprise Funds. Enterprise Funds may be used to account for any activity for which a fee is charged to external users for goods or services. All of the Town's Enterprise Funds are major funds.

**Water Fund**

The Water Fund is used to account for the revenues generated from the charges for distribution of water to the residential and commercial users of the Town.

**Electric Light Fund**

The Electric Light Fund is used to account for the revenues generated from the charges for electric distribution provided to the residential and commercial users of the Town.

**Non-Major Funds**

The non-major governmental funds consist of other special revenue and capital projects that are aggregated and presented in the non-major governmental funds column on the governmental funds financial statements. The following described the general use of these fund types:

**Special Revenue Fund**

The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than permanent funds or capital projects.

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

**Capital Projects Fund**

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

**Fiduciary Funds**

The Town's Fiduciary Funds are related to Private Purpose Trust Funds and Agency Accounts. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**F. Cash and Cash Equivalents**

**Government-Wide and Fund Financial Statements**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

**G. Investments**

**Government-Wide and Fund Financial Statements**

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits in any financial institution may not exceed certain levels within the financial institution.

Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U. S. Government or agencies that have a maturity of less than one year from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

**H. Accounts Receivables**

**Government-Wide and Fund Financial Statements**

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

***Intergovernmental***

Various state and federal operating and capital grants are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met. These receivables are considered 100% collectible.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Inventories**

**Government-Wide and Fund Financial Statements**

Inventories are not material in total to the government-wide and fund financial statements and therefore are recorded as expenditures at the time of purchase.

**J. Materials and Supplies**

**Government-Wide and Fund Financial Statements**

Materials and supplies in the Electric Light Department are inventories of parts and accessories purchased for use in the utility business for construction, operation and maintenance purposes and are stated at cost on a first-in, first-out basis.

**K. Prepaid Expenses**

**Government-Wide and Fund Financial Statements**

Prepaid expenses in the Electric Light Fund consist predominately of prepayments on purchased power.

**L. Capital Assets**

**Government-Wide Financial Statements**

Capital assets, which include property, plant, equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets, excluding infrastructure assets, are defined by the Town as assets with an initial individual cost of at least \$15,000 and an estimated useful life in excess of three years. Infrastructure assets are capitalized when the original cost exceeds \$25,000. These assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the year, no interest was capitalized.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the Town's historical records of necessary improvements and replacement.

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Capital Assets**

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and improvements	10-40	20-50
Improvements other than buildings	20	–
Machinery, vehicles and equipment	4-30	5-10
Infrastructure	20-40	50
Municipal Electric Light – Utility plant	–	33

**Fund Financial Statements**

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

**M. Interfund Receivables and Payables**

During the course of its operations, transactions occur between and within funds that may result in amounts owed between funds.

**Government-Wide Financial Statements**

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the Statement of Net Assets.

**Fund Financial Statements**

Transactions of a buyer/seller nature between and within governmental funds are not eliminated from the individual fund statements.

**N. Interfund Transfers**

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

**Government-Wide Financial Statements**

Operating transfers between and within governmental funds are eliminated from the governmental activities in the Statement of Net Assets.

**Fund Financial Statements**

Operating transfers between and within funds are not eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**O. Deferred Revenue**

Deferred revenue at the fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

**P. Net Assets and Fund Equity**

**Government-Wide Financial Statements (Net Assets)**

Net assets are reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Grants and Other Statutory Restrictions” represent restrictions placed on assets by outside parties.

“Debt Service” represents statutory restrictions of original debt issuance premiums to be used for debt payments ratably over the life of the loan.

“Permanent Funds – Expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent Funds – Non-Expendable” represents amounts held in trust for which only investment earnings may be expended.

**Fund Financial Statements (Fund Balances)**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of those resources.

The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

***Restricted Fund Balance***

This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**P. Net Assets and Fund Equity (Continued)**

**Fund Financial Statements (Fund Balances) (Continued)**

***Committed Fund Balance***

These amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which is the Town meeting action and can be modified or rescinded only through these actions. Committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action it employed to previously commit.

***Assigned Fund Balance***

This classification reflects the amounts constrained by the Town's "intent" to be used for specific purposes, but are neither restricted nor committed. Department heads and Town board/committees have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

***Unassigned Fund Balance***

This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When the restricted and other fund balance resources are available for use, it is the Town's policy to use restricted resources first, followed by committed, assigned, and unassigned amounts respectively.

**Q. Long-Term Debt**

**Government-Wide Financial Statements**

Long-term debt is reported as liabilities in the government-wide statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

**Fund Financial Statements**

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**R. Investment Income**

Investment income derived from major and non-major governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Laws (MGL).

**S. Compensated Absences**

Under terms of personnel policies and union contracts, vacation and sick leave are granted in varying amounts according to length of service.

Sick leave benefits and compensatory or flex time are accrued as a liability using the vesting method.

The liability includes the employees who are currently eligible to receive termination benefits and those the Town has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end taking into

Vested or accumulated vacation and sick leave are reported as liabilities and are expensed as incurred.

**Fund Financial Statements**

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities. For Enterprise Funds, the entire amount of compensated absences is reported as a fund liability.

**T. Use of Estimates**

**Government-Wide and Fund Financial Statements**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

**U. Post-Retirement Benefits**

**Government-Wide and Fund Financial Statements**

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 75 to 90 percent share of insurance premiums in the general and enterprise funds in the fiscal year paid. For the fiscal year ending June 30, 2011, the expenditure totaled \$348,845. There were fifty-one (51) participants eligible to receive benefits at June 30, 2011.



**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**V. Total Column**

**Government-Wide and Fund Financial Statements**

The total column presented on the government-wide financial statements represents consolidated financial information.

**Fund Financial Statements**

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

At the Annual Town Meeting, the Board of Selectmen and Finance Committee present an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the Town Meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions.

In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation.

"Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted. Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

Encumbrances of unexpended budgetary balances at year-end (continuing appropriations) do not constitute liabilities and, therefore, are presented in the governmental funds as a reservation of fund balance. Budgeted amounts for the General Fund are as originally adopted or as amended by Town vote, including continuing appropriations at the beginning of the year and excluding continuing appropriations at year-end.

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 3 – BUDGETARY BASIS OF ACCOUNTING**

While the Town is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (and Actual (Non-GAAP Basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budgetary basis and GAAP basis are as follows:

Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

The adjustments necessary to reconcile the GAAP and Budgetary Basis Statements are as follows:

<b>General Fund</b>	<b>Revenues</b>	<b>Expenditures</b>
Revenues /Expenditures (GAAP Basis)	\$18,503,571	\$19,270,567
Net adjustment for 60-day revenue accruals	18,750	
Reverse effect of non-budgeted state contributions for Teachers Retirement	(182,913)	(182,913)
Investment income of Stabilization Fund arrangements	(75,210)	
Budgetary Basis	<u>\$18,264,198</u>	<u>\$19,087,654</u>

**NOTE 4 – CASH AND INVESTMENTS**

A cash pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "cash and cash equivalents."

**A. Custodial Credit Risks – Deposits – Town's Financials**

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned. The Town does not have a formal deposit policy for custodial credit risk. At June 30, 2011, the carrying amount of deposits totaled \$5,047,245 and the bank balance totaled \$6,450,002. Of the bank balance total, \$5,853,039 was covered by Federal Depository Insurance and the Depositors Insurance Fund, and \$596,963 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**B. Pooled Cash and Cash Equivalents**

Pooled cash and cash equivalents are reported in the financial statements as follows:

<b>Governmental Activities:</b>	
Pooled cash and cash equivalents	\$ 4,509,449
<b>Business-Type Activities – Water:</b>	
Pooled cash and cash equivalents	516,125
<b>Fiduciary-Type Activities:</b>	
Restricted cash and cash equivalents	<u>21,671</u>
<b>Total</b>	<u><b>\$ 5,047,245</b></u>

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 4 – CASH AND INVESTMENTS (Continued)**

**B. Pooled Cash and Cash Equivalents**

**Business-Type Activities – Electric Light Fund:**  
**(December 31, 2010)**

Pooled cash and cash equivalents	\$ 602,774
Restricted cash and cash equivalents	<u>298,156</u>
<b>Total</b>	<b><u>\$ 900,930</u></b>

**C. Investment Policies**

Investments of funds, except for trust funds, are generally restricted by Massachusetts General Laws, Chapter 44, Section 55. That statute permits investments of available revenue funds and bond and notes proceeds in term deposits and certificates of deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust (MMDT), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

The MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U. S. Government obligations and highly-rated corporate securities with maturities of one year or less.

**Interest Rate Risk – Deposits**

The Town does not include in its investment policy provision that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Town invests in term securities out to a maximum of five years to help limit the amount of exposure to fair value losses that would arise if interest rates were to rise.

**Credit Risk – Deposits**

The Town does not include in its investment policy a provision that would further limit its investment choices.

**Concentration of Credit Risk – Deposits**

The Town places no limit on the amount that may be invested in any one issuer.

# TOWN OF STERLING, MASSACHUSETTS

## Notes to Basic Financial Statements

Year Ended June 30, 2011

### NOTE 4 – CASH AND INVESTMENTS (Continued)

#### Investments

As of June 30, 2011, the Town had the following investments and maturities:

		<u>Investment Maturities (in Years)</u>		
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>
Debt Securities:				
U.S. Treasury obligations	\$ 322,351	\$	\$ 322,351	\$
U.S. government agencies	2,464,546		1,587,186	877,360
Corporate bonds	410,526	126,859	283,667	
Money Market mutual fund	<u>1,034,893</u>	<u>1,034,893</u>	<u>–</u>	
	4,232,316	1,161,752	2,193,204	877,360
Other Investments:				
Certificates of deposit	938,593			
Equity mutual funds	253,450			
Equity securities – domestic	<u>2,340</u>			
<b>Total</b>	<b><u>\$ 5,426,699</u></b>			

#### Custodial Credit Risks – Investments

Investment custodial risk is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the Town's investments in U.S. Treasury/Agency Securities, Certificates of Deposit, and Money Market Mutual Funds, the Town has custodial risk exposure of \$4,926,699 at June 30, 2011. However, the Town's account is with Commonwealth Financial Network LLC, which is protected in accordance with the Securities Investor Protection Corporation (SIPC) up to \$500,000 including cash claims up to \$250,000. The Town has also arranged for additional insurance protection for cash and investments to supplement its SIPC coverage. The additional insurance protection covers total account net equity in excess of \$500,000/\$100,000. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Interest Rate Risk – Investments

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Credit Risk

The Town's exposure to credit risk as of June 30, 2011 is as follows:

<u>Related Debt Instruments</u>	<u>Fair Value</u>	<u>AAA</u>	<u>A1</u>	<u>AA2</u>	<u>B1</u>	<u>Not Rated</u>
U.S. Treasury Obligations	\$ 322,351	\$ 322,351	\$	\$	\$	\$
U.S. Government Agencies	2,464,546	2,464,546				
Corporate Bonds	410,526		55,359	262,002	93,165	
Money Market Mutual Fund	<u>1,034,893</u>					<u>1,034,893</u>
<b>Total</b>	<b><u>\$ 4,232,316</u></b>	<b><u>\$ 2,786,897</u></b>	<b><u>\$ 55,359</u></b>	<b><u>\$ 262,002</u></b>	<b><u>\$ 93,165</u></b>	<b><u>\$ 1,034,893</u></b>

#### Concentration of Credit Risk

The Town places no limit on the amount it may invest in one issuer. More than 5 percent of the Town's investments are Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Federal National Mortgage Association and General Electric Capital Corporation amounting to 13.41%, 8.54%, 23.47%, and 4.83%, respectively, of the Town's total investments.

# TOWN OF STERLING, MASSACHUSETTS

## Notes to Basic Financial Statements

Year Ended June 30, 2011

### NOTE 4 – CASH AND INVESTMENTS (Continued)

#### Concentration of Credit Risk (Continued)

As of December 31, 2010, the Electric Light Fund had the following investments and maturities:

	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1 to 5</u>
Debt Securities:			
U.S. treasury obligations	\$ 38,872	\$	\$ 38,872
U.S. government agencies	150,667		150,667
Corporate bonds	102,045		102,045
Money Market mutual fund	<u>305,067</u>	<u>305,067</u>	<u>—</u>
	596,651	305,067	291,584
Other Investments:			
Certificates of deposit	180,443		
Equity mutual funds	16,921		
Equity securities – domestic	<u>557</u>		
Total	<u>\$ 794,572</u>		

#### Custodial Credit Risks

Investment custodial risk is the risk that, in the event of a failure by the counterparty, the Electric Light Department will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the Department's investments in U.S. Treasury/Agency Securities, Certificates of Deposit, and Money Market Mutual Funds, the Department has custodial risk exposure of \$294,572. However, the Department's account is with Commonwealth Financial Network LLC, which is protected in accordance with the Securities Investor Protection Corporation (SIPC) up to \$500,000 including cash claims up to \$250,000. The Department has also arranged for additional insurance protection for cash and investments to supplement its SIPC coverage. The additional insurance protection covers total account net equity in excess of \$500,000/\$100,000. The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Credit Risk

The Electric Light Fund's exposure to credit risk as of December 31, 2010 is as follows:

<u>Related Debt Instruments</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA2</u>	<u>A1</u>	<u>Not Rated</u>
U.S. Treasury Obligations	\$ 38,872	\$ 38,872	\$	\$	\$
U.S. Government Agencies	150,667	150,667			
Corporate Bonds	102,045		58,797	43,248	
Money Market Mutual Fund	<u>305,067</u>				<u>305,067</u>
Total	<u>\$ 596,651</u>	<u>\$ 189,539</u>	<u>\$ 58,797</u>	<u>\$ 43,248</u>	<u>\$ 305,067</u>

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 4 – CASH AND INVESTMENTS (Continued)**

**Concentration of Credit Risk**

The Electric Light Company places no limit on the amount it may invest in one issuer. More than 5 percent of the Electric Light's investments are Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Federal National Mortgage Association and Abbot Laboratories amounting to 22.86%, 9.04%, 9.04% and 3.97%, respectively, of the Electric Light Company's total investments.

**NOTE 5 – TAXES RECEIVABLE**

**A. Real and Personal Property**

The taxes are an enforceable lien on property as of July 1. Taxes are levied for the fiscal year and generally payable in installments.

Exceptions apply to the due dates for tax payments if levies are not timely assessed. State law limits the amount of property tax assessments to 2.5 percent of the full and fair value of property, subject to local override provisions.

The following is a summary of the property tax calendar used for the 2011 tax levies.

**June 30, 2010**

First and second quarter tax bills are mailed to taxpayers.

**August 2, 2010**

First quarter tax bills are due.

**November 1, 2010**

Second quarter tax bills are due.

**December 28, 2010**

Third and fourth quarter tax bills are mailed to taxpayers.

**February 1, 2011**

Third quarter tax bills are due.

**May 2, 2011**

Fourth quarter tax bills are due.

Property taxes are based on assessments as of January 1. Taxes are used to finance the operations of the Town for the fiscal year July 1<sup>st</sup> to June 30<sup>th</sup>.

By law, all taxable property in the Commonwealth of Massachusetts must be assessed at 100 percent of fair cash value. Taxes are due and payable on July 1<sup>st</sup>.

After the Town sets the tax rate, the assessors make the actual tax commitment. If actual bills are mailed on or before December 31<sup>st</sup>, the balance remaining is payable in two equal installments. The first installment is due on February 1<sup>st</sup> and the second installment is due on May 1<sup>st</sup>. If bills are mailed after December 31<sup>st</sup>, the entire balance is not due until May 1<sup>st</sup> or thirty (30) days after the bills were mailed, whichever is later.

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 5 – TAXES RECEIVABLE (Continued)**

**A. Real and Personal Property (Continued)**

Any betterments, special assessments and other charges are added to the actual bills. Interest at the rate of fourteen (14) percent is charged on the amount of any preliminary tax or actual tax installment payment that is unpaid and delinquent and is charged only for the number of days the payment is actually delinquent. If actual tax bills are mailed after December 31<sup>st</sup>, interest will be computed from May 1<sup>st</sup>, or the payment due date, whichever is later. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables. Revenues from property taxes are recognized in the fiscal year for which they have been levied.

An allowance for uncollectible accounts is estimated based on historical trends and specific account analysis. The Town anticipates the collection of all outstanding receivables. All delinquent accounts are charged interest at the rate of fourteen percent (14%) per annum. Fourteen days after the due date for the second half tax bill for real estate, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the Tax Collector may proceed to file a lien against the delinquent taxpayer's property.

**B. Taxes Receivable**

The prior fiscal year's tax levy is used as a base and cannot increase by more than 2.5 percent (excluding new growth) unless an override or debt exemption is voted. The following is a calculation of this limitation:

Fiscal Year 2010 authorized tax levy limit	\$14,081,773
2.5 percent increase	352,044
New growth	159,480
Debt exclusions	<u>1,272,467</u>
Fiscal Year 2011 authorized tax levy limit	<u>\$15,865,764</u>

In any fiscal year, the total property taxes assessed cannot exceed 2.5 percent of the full and fair cash valuation of the Town. The following is a calculation of this limitation:

<u>Assessed Valuation</u>		<u>Levy Ceiling</u>
\$ 980,949,938	x 2.5%	\$ 24,523,748

The actual 2011 tax levy was \$14,616,154, leaving an excess levy capacity of \$1,249,610. The tax rate for 2011 was \$14.90 for all classifications.

**C. Excise Taxes**

The excise taxes consist of motor vehicle excise. Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair value of those vehicles. The excise taxes are due at various intervals since tax commitments are completed periodically based on dates of ownership of motor vehicles. Interest accrues on delinquent taxes after thirty (30) days from the billing date.

The tax calculation for motor vehicle excise taxes is the fair value of the vehicle multiplied by the \$25 per \$1,000 of value. The allowance for uncollectible accounts is based on historical trends and special account analysis.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 5 – TAXES RECEIVABLE (Continued)**

**C. Excise Taxes (Continued)**

Taxes receivable consisted of the following at June 30, 2011:

<b>Real Estate</b>		
Current Year	\$ 200,849	\$
Prior Years	3,929	
Less allowance for uncollectibles	<u>(605)</u>	204,173
<b>Personal Property</b>		
Current Year	3,639	
Prior Years	7,560	
Less allowance for uncollectibles	<u>(5,813)</u>	<u>5,386</u>
<b>Net Property Taxes</b>		209,559
<b>Motor Vehicle Excise</b>		
Current Year	91,151	
Prior Years	37,350	
Less allowance for uncollectibles	<u>(22,799)</u>	105,702
<b>Tax Liens and Possessions</b>	336,712	
Less allowance for uncollectibles	<u>(2,009)</u>	<u>334,703</u>
<b>Total Taxes Receivable</b>		<u>\$ 649,964</u>

**NOTE 6 – ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at June 30, 2011 (December 31, 2010 for the Electric Light Fund):

**Governmental Funds:**

**Non-Major Funds:**

Ambulance receivable	\$ 263,201	\$
Less allowance for Uncollectibles	<u>(118,441)</u>	<u>144,760</u>
Title V Septic Loans – Current	1,545	
Title V Septic Loans – Non-current	<u>10,238</u>	<u>11,783</u>
<b>Total Governmental Funds</b>		<u>\$ 156,543</u>



**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 6 – ACCOUNTS RECEIVABLE (Continued)**

**Proprietary Funds:**

**Business-Type Activities – Enterprise Funds**

<b>Water</b>		
Accounts Receivable	\$ 6,494	
Less allowance for uncollectibles	<u>(382)</u>	<u>6,112</u>
<b>Electric Light Fund</b>		
Accounts Receivable	458,217	
Less allowance for uncollectibles	(10,000)	
Other receivables		
Merchandise and jobbing	96,565	
Disaster recovery	<u>215,719</u>	<u>760,501</u>
<b>Total Business-Type Activities</b>		<b><u>\$ 766,613</u></b>

**NOTE 7 – INTERGOVERNMENTAL RECEIVABLES**

The Town's intergovernmental receivable balance represents reimbursements from other governments for expenditures incurred, aid awarded, or debt incurred, and consisted of the following at June 30, 2011:

	<u><b>Current</b></u>	<u><b>Non-Current</b></u>
<b>Governmental Funds</b>		
<b>General Fund:</b>		
<i><b>Commonwealth of Massachusetts:</b></i>		
Department of Veterans Services:		
Veterans' benefits	\$ 45,875	
School Building Authority:		
School Building Assistance – capital portion	<u>791,919</u>	<u>7,339,849</u>
<b>Total</b>	<u>837,794</u>	<u>7,339,849</u>
<b>Non-Major Governmental Funds</b>		
<i><b>Commonwealth of Massachusetts:</b></i>		
Massachusetts Highway Department:		
Chapter 90 funded projects	<u>43,690</u>	<u>—</u>
<b>Total</b>	<u>43,690</u>	<u>—</u>
<b>Total Governmental Funds</b>	<b><u>\$ 881,484</u></b>	<b><u>\$ 7,339,849</u></b>
<b>Proprietary Funds</b>		
<b>Business-Type Activities – Enterprise Funds:</b>		
<b>Water Fund:</b>		
<i><b>Commonwealth of Massachusetts:</b></i>		
MA Water Pollution Abatement Trust Subsidy	<u>\$ 8,614</u>	<u>\$ 78,698</u>
<b>Total Proprietary Funds</b>	<b><u>\$ 8,614</u></b>	<b><u>\$ 78,698</u></b>

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 8 – PREPAID EXPENSES**

Prepayments of the Electric Light Fund at December 31, 2010 consisted of the following:

Prepaid insurance	\$ 54,122
Pension assessment	62,365
Purchased power	250,019
Other expenses	10,038
Deferred power prepayment	120,000
Berkshire Wind	<u>542,908</u>
<b>Total Prepaid Expenses</b>	<b><u>\$ 1,039,452</u></b>

**NOTE 9 – PURCHASED POWER WORKING CAPITAL**

As described more fully in Note 17C, the Department is a member and participant of the Massachusetts Municipal Wholesale Electric Company (MMWEC). The purchased power working capital is an amount held by MMWEC. The implementation of the Working Capital Program began in 1985. MMWEC participants approved certain working capital amendments to the various power purchase agreements. MMWEC requires that a set amount of capital be held from which it may pay the Department's power obligations when they are due. The fund is replenished as needed from the Department's monthly invoice payments. The income earned allocated to the Light Department will be applied as a credit to MMWEC Power Sales Billing. The balance in the fund as of December 31, 2010 is \$395,803.

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 10 – CAPITAL ASSETS**

**Governmental Activities**

Capital asset activity for the year ended June 30, 2011 (December 31, 2010 in the Electric Light Fund) was as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Balance Deletions</u>	<u>Balance June 30, 2011</u>
<b>Governmental Activities</b>				
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 1,528,016	\$	\$	\$ 1,528,016
Construction in progress	<u>3,490</u>	<u></u>	<u></u>	<u>3,490</u>
<b>Total Capital Assets         Not Being Depreciated</b>	<u>1,531,506</u>	<u>–</u>	<u>–</u>	<u>1,531,506</u>
<b>Capital Assets Being Depreciated:</b>				
Buildings and improvements	27,626,540			27,626,540
Machinery, furnishings and equipment	900,100	40,000	(132,093)	808,007
Vehicles	3,619,769	661,970		4,281,739
Infrastructure	<u>6,836,671</u>	<u>346,486</u>	<u></u>	<u>7,183,157</u>
<b>Total Capital Assets         Being Depreciated</b>	<u>38,983,080</u>	<u>1,048,456</u>	<u>(132,093)</u>	<u>38,899,443</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	(5,339,725)	(701,515)		(6,041,240)
Machinery, furnishings and equipment	(399,215)	(80,387)	132,093	(347,509)
Vehicles	(1,748,357)	(235,929)		(1,984,286)
Infrastructure	<u>(2,322,848)</u>	<u>(248,085)</u>	<u></u>	<u>(2,570,933)</u>
<b>Total Accumulated         Depreciation</b>	<u>(9,810,145)</u>	<u>(1,265,916)</u>	<u>132,093</u>	<u>(10,943,968)</u>
<b>Total Capital Assets Being     Depreciated, Net</b>	<u>29,172,935</u>	<u>(217,460)</u>	<u>–</u>	<u>28,955,475</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 30,704,441</u>	<u>\$ (217,460)</u>	<u>\$ –</u>	<u>\$ 30,486,981</u>

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 10 – CAPITAL ASSETS (Continued)**

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
<b>Business-Type Activity</b>				
<b>Water Fund</b>				
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 147,200	\$	\$	\$ 147,200
<b>Total Capital Assets             Not Being Depreciated</b>	<u>147,200</u>	<u>—</u>	<u>—</u>	<u>147,200</u>
<b>Capital Assets Being Depreciated:</b>				
Buildings and improvements	3,874,049			3,874,049
Machinery, furnishings and equipment	80,000			80,000
Infrastructure	<u>2,417,897</u>			<u>2,417,897</u>
<b>Total Capital Assets             Being Depreciated</b>	<u>6,371,946</u>	<u>—</u>	<u>—</u>	<u>6,371,946</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	(604,270)	(91,039)		(695,309)
Machinery, furnishings and equipment	(64,000)	(8,000)		(72,000)
Infrastructure	<u>(1,209,559)</u>	<u>(49,704)</u>		<u>(1,259,263)</u>
<b>Total Accumulated             Depreciation</b>	<u>(1,877,829)</u>	<u>(148,743)</u>	<u>—</u>	<u>(2,026,572)</u>
<b>Total Water Fund Capital Assets         Being Depreciated, Net</b>	<u>4,494,117</u>	<u>(148,743)</u>		<u>4,345,374</u>
<b>Total Water Fund Capital         Assets, Net</b>	<u>\$ 4,641,317</u>	<u>\$ (148,743)</u>	<u>\$ —</u>	<u>\$ 4,492,574</u>
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
	<u>Jan. 1, 2010</u>			<u>Dec. 31, 2010</u>
<b>Business-Type Activity</b>				
<b>Electric Light Fund (as of Dec. 31, 2010)</b>				
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 197,008	\$	\$	\$ 197,008
Construction in progress	<u>369,385</u>	<u>457,000</u>	<u>(63,137)</u>	<u>763,248</u>
<b>Total Capital Assets             Not Being Depreciated</b>	<u>566,393</u>	<u>457,000</u>	<u>(63,137)</u>	<u>960,256</u>
<b>Capital Assets Being Depreciated:</b>				
Distribution plant	10,904,367	511,227	(127,687)	11,287,907
General plant	<u>3,213,182</u>	<u>172,832</u>	<u>(7,681)</u>	<u>3,378,333</u>
<b>Total Capital Assets             Being Depreciated</b>	<u>14,117,549</u>	<u>684,059</u>	<u>(135,368)</u>	<u>14,666,240</u>
<b>Less accumulated depreciation for:</b>				
Electric utility plant	(5,143,961)	(327,131)	127,687	(5,343,405)
General plant	<u>(1,178,574)</u>	<u>(96,396)</u>	<u>5,971</u>	<u>(1,268,999)</u>
<b>Total Accumulated             Depreciation</b>	<u>(6,322,535)</u>	<u>(423,527)</u>	<u>133,658</u>	<u>(6,612,404)</u>
<b>Total Electric Light Fund Capital         Assets Being Depreciated, Net</b>	<u>7,795,014</u>	<u>260,532</u>	<u>(1,710)</u>	<u>8,053,836</u>
<b>Total Electric Light Fund         Capital Assets, Net</b>	<u>\$ 8,361,407</u>	<u>\$ 717,532</u>	<u>\$ (64,847)</u>	<u>\$ 9,014,092</u>

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 10 – CAPITAL ASSETS (Continued)**

Depreciation expense was charged as direct expense to programs to the governmental functions as follows:

	<b><u>Governmental Activities</u></b>	<b><u>Business-Type Activities</u></b>
General government	\$ 47,387	\$
Public safety	318,474	
Public works	385,298	
Education	468,052	
Culture and recreation	46,705	
Water		148,743
Electric Light		423,527
<b>Total Depreciation Expense</b>	<b><u>\$ 1,265,916</u></b>	<b><u>\$ 572,270</u></b>

**NOTE 11 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2011 are summarized as follows:

		<b><u>Transfers In</u></b>	
	<b><u>General Fund</u></b>	<b><u>Business- Type Fund</u></b>	<b><u>Total</u></b>
<b><u>Transfers Out</u></b>			
General Fund	\$ –	\$ 127,396	\$ 127,396
Non-major Governmental Funds	227,521		227,521
Business-Type Funds	127,396		127,396
<b>Total Transfers Out</b>	<b><u>\$ 354,917</u></b>	<b><u>\$ 127,396</u></b>	<b><u>\$ 482,313</u></b>

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 12 – LONG-TERM DEBT**

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities:

	<u>Interest Rate</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Original Amount Issued</u>	<u>Outstanding June 30, 2011</u>
<b>Governmental-Type Funds</b>					
<b>Inside Debt:</b>					
Fire Truck	3.55%	05/15/05	05/15/15	\$ 645,000	\$ 255,000
Fire Station	4.05%	02/13/07	02/01/17	1,950,000	1,350,000
Griffin Road Land	2.44%	05/03/11	06/15/19	200,000	82,000
Library Renovations	2.44%	05/03/11	06/15/21	962,000	455,000
Police and Fire Renovations	2.44%	05/03/11	06/15/21	<u>3,200,000</u>	<u>1,580,500</u>
<b>Total Inside Debt</b>					<u><b>3,722,500</b></u>
<b>Outside Debt:</b>					
School Construction – Refunding	4.00%	04/12/06	02/15/20	9,365,000	<u>8,905,000</u>
<b>Total Outside Debt</b>					<u><b>8,905,000</b></u>
<b>Total – Governmental Type Debt</b>					<u><b>\$ 12,627,500</b></u>
<b>Business-Type Funds:</b>					
<b>Water Fund</b>					
<b>Inside Debt:</b>					
Water Land	2.44%	05/03/11	06/15/20	<u>\$ 88,000</u>	<u>\$ 44,000</u>
<b>Outside Debt:</b>					
Water Tank	2.44%	05/03/11	06/15/21	1,550,000	798,000
MWPAT – Water Disinfecting	N/A	08/25/04	02/01/21	451,269	295,000
Taft Road Water Mains	4.03%	06/15/01	05/15/25	660,000	450,000
Route 12 Water	4.15%	06/15/01	05/15/25	388,000	265,000
MWPAT – Route 12 Water	2.00%	12/18/07	07/15/27	<u>806,740</u>	<u>706,357</u>
<b>Total Outside Debt</b>					<u><b>2,514,857</b></u>
<b>Total – Business-Type Funds</b>					<u><b>\$ 2,558,857</b></u>

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 12 – LONG-TERM DEBT (Continued)**

The annual requirements to amortize notes payable obligations outstanding as of June 30, 2011 are as follows:

**Governmental-Type Activities**

<b><u>Years Ending</u></b>				<b><u>Anticipated</u></b>	<b><u>Total</u></b>
<b><u>June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>	<b><u>State</u></b>	<b><u>Net Due</u></b>
				<b><u>Subsidy</u></b>	
2012	\$ 1,391,500	\$ 490,495	\$ 1,881,995	\$ 1,034,230	\$ 847,765
2013	1,369,500	431,863	1,801,363	1,034,230	767,133
2014	1,349,500	381,060	1,730,560	1,034,230	696,330
2015	1,330,000	331,057	1,661,057	1,034,230	626,827
2016	1,275,000	280,008	1,555,008	1,034,230	520,778
2017-2021	5,532,000	648,037	6,180,037	4,136,920	2,043,117
2022-2025	380,000	40,565	420,565	–	420,565
<b>Total</b>	<b><u>\$ 12,627,500</u></b>	<b><u>\$ 2,603,085</u></b>	<b><u>\$ 15,230,585</u></b>	<b><u>\$ 9,308,070</u></b>	<b><u>\$ 5,922,515</u></b>

**Business-Type Activities**

<b><u>Years Ending</u></b>				<b><u>Anticipated</u></b>	<b><u>Total</u></b>
<b><u>June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>	<b><u>State</u></b>	<b><u>Net Due</u></b>
				<b><u>Subsidy</u></b>	
2012	\$ 218,737	\$ 85,812	\$ 304,549	\$ 16,812	\$ 287,737
2013	221,449	75,522	296,971	16,048	280,923
2014	222,176	68,528	290,704	15,536	275,168
2015	227,416	62,124	289,540	15,326	274,214
2016	223,172	54,039	277,211	14,699	262,512
2017-2021	1,005,745	155,055	1,160,800	64,511	1,096,289
2022-2026	344,069	33,802	377,871	–	377,871
2027-2028	96,093	1,931	98,024	–	98,024
<b>Total</b>	<b><u>\$ 2,558,857</u></b>	<b><u>\$ 536,813</u></b>	<b><u>\$ 3,095,670</u></b>	<b><u>\$ 142,932</u></b>	<b><u>\$ 2,952,738</u></b>

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 12 – LONG-TERM DEBT (Continued)**

During the fiscal year ended June 30, 2011 (including the Electric Light Enterprise Fund at December 31, 2010) the following changes occurred in long-term liabilities:

	<u>Balance Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance Ending</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 14,037,000	\$ 24,500	\$1,385,000	\$12,676,500	\$1,391,500
Lease purchase obligation	125,030	525,000	87,797	562,233	74,819
Other post-employment benefits	317,797	284,829	—	602,626	—
Compensated Absences	156,656	11,598	15,830	152,424	2,964
Landfill Post-Closure Care Costs	<u>123,872</u>	<u>—</u>	<u>5,992</u>	<u>117,880</u>	<u>8,420</u>
<b>Governmental Activity Long-Term Liabilities</b>	<u>\$ 14,760,355</u>	<u>\$ 845,927</u>	<u>\$1,494,619</u>	<u>\$14,111,663</u>	<u>\$1,477,703</u>
<b>Business-Type Activities:</b>					
<b>Water Activities</b>					
General Obligation Bonds	\$ 1,703,000	\$ 9,500	\$ 155,000	\$ 1,557,500	\$ 158,500
Massachusetts Water Pollution Abatement Trust	1,060,318	—	58,961	1,001,357	60,237
Other post-employment Benefits	22,149	16,259	—	38,408	—
Compensated Absences	<u>4,950</u>	<u>—</u>	<u>534</u>	<u>4,416</u>	<u>—</u>
<b>Total Water Activities Long-Term Liabilities</b>	<u>2,790,417</u>	<u>25,759</u>	<u>214,495</u>	<u>2,601,681</u>	<u>218,737</u>
<b>Electric Light Activities (as of December 31, 2010)</b>					
Other post-employment benefits	289,629	305,502	—	595,131	—
Compensated Absences	<u>48,891</u>	<u>—</u>	<u>48,891</u>	<u>—</u>	<u>—</u>
<b>Total Electric Light Activities Long-Term Liabilities</b>	<u>338,520</u>	<u>305,502</u>	<u>48,891</u>	<u>595,131</u>	<u>—</u>
<b>Total Business-Type Activities</b>	<u>\$ 3,128,937</u>	<u>\$ 331,261</u>	<u>\$ 263,386</u>	<u>\$ 3,196,812</u>	<u>\$ 218,737</u>

**A. Lease Purchase Obligation**

The Town has a lease with All American Investment Group for the purchase of a new Ambulance. The agreement dated November 19, 2009 stipulates four (4) annual payments of \$35,416 at an interest rate of 5.19 percent.

The Town has a lease with Leasing 2, Inc. for the purchase of a Fire Pumper/Tanker. The agreement dated November 3, 2010 stipulates ten (10) annual payments of \$62,148 at an interest rate of 3.81 percent.



**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 12 – LONG-TERM DEBT (Continued)**

**A. Lease Purchase Obligation (Continued)**

The future minimum capital lease obligations and the net present value of these minimum lease payments as of June 30, 2011 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 97,564
2013	97,564
2014	97,564
2015	62,148
2016	62,148
2017	62,148
2018	62,148
2019	62,148
2020	62,148
<b>Total Minimum Lease Payments</b>	665,580
Less amount representing interest	(103,347)
<b>Present Value of Net Minimum Lease Payments</b>	<u><u>\$ 562,233</u></u>

**B. Landfill Post-Closure Care Costs**

The Town placed a final cover on its landfill site in Fiscal Year 1991. State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions of the landfill site for thirty (30) years after closure. The current year expenditures are reported in the General Fund. The estimated total future liability for landfill post-closure care costs is \$117,880.

This estimate is based on an independent evaluation of the cost to perform post-closure care. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

**C. Compensated Absences**

The Town's liability for vested and unpaid compensated absences (accrued sick benefits, compensatory and flex time) is unfunded, and amounts to \$152,424 at June 30, 2011.

**D. Legal Debt Limit**

Under Section 10 of Chapter 44 of the Massachusetts General Laws, a Town may authorize indebtedness up to a limit of five percent (5%) of its equalized valuation of the Town. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." The Town's inside debt at June 30, 2011 totaled \$3,766,500.

In addition, the Town is authorized to incur debt outside of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 12 – LONG-TERM DEBT (Continued)**

**D. Legal Debt Limit (Continued)**

The following is a computation of the legal debt limit as of June 30, 2011:

Equalized Valuation – Real Estate and Personal Property (2010)	<u>\$ 1,106,035,700</u>
Debt Limit: 5% of Equalized Value	\$ 55,301,785
Total Debt Outstanding	15,186,357
Less: Debt Outside Debt Limit	<u>(11,419,857)</u>
Inside Debt Outstanding	<u>3,766,500</u>
Inside Debt Excess Borrowing Capacity at June 30, 2011	<u>\$ 51,535,285</u>

**E. Overlapping Debt**

The Town pays assessments, which includes debt service payments to other local governmental units providing services within the Town's boundaries (commonly referred to as overlapping debt). The primary overlapping debt relates to the regional school district of which the Town is a member. The following summary sets forth the long-term debt of the governmental unit, the estimated share of such debt being serviced by the Town and the total of its share of estimated indirect debt as of June 30, 2011.

Wachusett Regional School District	\$ 28,274,000	16.26%	\$ 4,606,818
Montachusett Regional Vocational Technical School District	<u>8,954,000</u>	5.00%	<u>447,700</u>
<b>Total</b>	<u>\$ 37,228,000</u>		<u>\$ 5,054,518</u>

**F. Current Year Advance Refunding**

On May 3, 2011, the Town issued \$2,960,000 of general obligation refunding bonds with an interest rate of 2.44 percent. These refunding bonds were issued to advance refund portions of the outstanding principal amounts of the general obligation bonds of the Town dated June 15, 2001. Of the net proceeds of \$2,960,000, after receipt of a re-offering premium of \$128,695 and after payment of interest and refunding fees of \$13,770, \$3,074,925 was placed in an irrevocable trust fund under an Escrow agreement between the Town and the Escrow Holder. The Escrow Holder used the proceeds to purchase a portfolio of non-callable direct obligations of the United States of America (Government Obligations). The Government Obligations will have maturities and interest rates sufficient to pay principal and interest payments and redemption premiums on the Refunding Bonds on the date the payments are due.

The Town refunded the above bonds to obtain an economic gain (difference between the present values of the debt service payments on the old and net debt) of \$267,116.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 12 – LONG-TERM DEBT (Continued)**

**F. Current Year Advance Refunding (Continued)**

The principal balance of the defeased bonds was \$2,975,000 at June 30, 2011. As a result, the refunded bonds are considered defeased and the liability has been removed from the basic financial statements.

**NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS PAYABLE**

**GASB Statement No. 45**

The Town has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*, for certain post-employment health care and life insurance benefits provided by the Town. The Town has adopted the requirements of GASB Statement No. 45 and thus recognizes the cost of post-employment benefits in the year when the employee services are received, reports the accumulated liability from prior years and provides information useful in assessing potential demands on the Town's future cash flows.

**Plan Description**

The Town provides medical and life insurance coverage to employees that become eligible to retire upon meeting one of the following conditions:

**A. Retired Medical Insurance Program**

1. Plan Type: Blue Cross HMO Blue New England, Blue Cross Elect Preferred (PPO), Blue Cross – Medex 2 and Fallon Senior.
2. Administrator: Town of Sterling
3. Eligibility: An employee shall become eligible to retire under this plan upon attainment of age 55 as an active member and completion of 10 years of service.
4. Cost Sharing: Twenty-Five Percent (25%) of premiums for Medical (for those retiring on or after July 1, 2009 and varying amounts for those retiring prior to that date.

**B. Dental Insurance Program**

1. Plan Type: Comprehensive Dental via Blue Cross Blue Shield
2. Administrator: Town of Sterling
3. Eligibility: Same as Above
4. Cost Sharing: Retirees shall pay twenty-five percent (25%) of premiums.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS PAYABLE (Continued)**

**C. Retiree Life Insurance Program**

1. Plan Type: Group Term Life Insurance – \$5,000
2. Administrator: Town of Sterling
3. Eligibility: Same as Above
4. Cost Sharing: Retirees shall pay twenty-five percent (25%) of premiums.

**D. Funding Policy**

The contribution requirements of plan members and the Town are established and may be amended through Town ordinances. The required contribution is based on the projected pay-as-you-go financing requirements. For the 2011 fiscal year, total Town premiums plus implicit costs for the retiree medical program are \$348,845, consisting of \$268,108 for the governmental activities and \$80,737 for the business-type activities.

**E. Annual OPEB Cost and Net OPEB Obligations**

The Town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

The following table shows the components of the School District's annual OPEB costs for the fiscal year, the amount actually contributed to the plan and changes in the School District's net OPEB obligation to the plan:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>		<b>Total</b>
		<b>Water Fund</b>	<b>Electric Light As of 12/31/10</b>	
Normal Cost	\$ 194,630	\$ 11,110	\$ 264,315	\$ 470,055
Amortization of unfunded actuarial accrued liability with interest	<u>358,306</u>	<u>20,453</u>	<u>106,620</u>	<u>485,379</u>
<b>Annual OPEB Cost (Expense)</b>	552,936	31,563	370,935	955,434
Contributions made during the fiscal year	<u>268,108</u>	<u>15,304</u>	<u>65,433</u>	<u>348,845</u>
Increase in Net OPEB Obligation	<u>284,828</u>	<u>16,259</u>	<u>305,502</u>	<u>606,589</u>
Net OPEB Obligation – Beginning of Year	<u>317,797</u>	<u>22,149</u>	<u>289,629</u>	<u>629,575</u>
<b>Net OPEB Obligation – End of Year</b>	<u><u>\$ 602,625</u></u>	<u><u>\$ 38,408</u></u>	<u><u>\$ 595,131</u></u>	<u><u>\$ 1,236,164</u></u>

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS PAYABLE (Continued)**

**E. Annual OPEB Cost and Net OPEB Obligations (Continued)**

The Governmental Activities and the Water Fund's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/11	\$ 584,499	48.5%	\$ 641,033
06/30/10	594,444	42.8%	339,946

The Electric Light Fund's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/10	\$ 370,935	18.0%	\$ 595,131
12/31/09	344,165	16.0%	289,629

**F. Funded Status and Funding Progress**

***Governmental Activities and the Water Fund***

As of July 1, 2009, the most recent valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$6,918,399 and the actuarial value of assets was \$0, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$6,918,399. The covered payroll (annual payroll of active employees covered by the plan) was \$2,652,985, and the ratio of the UAAL to the covered payroll was 260.8 percent.

***Electric Light Fund***

As of December 31, 2009 the Plan was unfunded. The most recent actuarial valuation on July 1, 2009 projected an actuarial accrued liability (AAL) for the Light Department of \$2,453,290. There are no assets in the Plan, and the unfunded actuarial accrued liability (UAAL) is projected at \$2,453,290. The covered payroll of the Light Department (annual payroll of active employees covered by the plan) was \$1,112,000 and the ratio of the UAAL to the covered payroll was 220.6 percent.

Actual valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about future employment mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS PAYABLE (Continued)**

**G. Effect of 1% Change in Healthcare Trend Rates**

In the event that healthcare trend rates were 1 percent higher than forecast and employee contributions were to increase at the forecast rates, the Actuarial Accrued Liability would increase to \$8,356,502, or by 20.8 percent and the corresponding Normal Cost would increase to \$280,585 or by 33.8 percent. If such healthcare trend rates were 1 percent less than forecast and employee contributions were to increase at the forecast rate, the Actuarial Accrued Liability would decrease to \$5,773,814 or by 16.5 percent and the corresponding Normal Cost would decrease to \$156,494 or by 25.4 percent.

**H. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial Cost Method:	Projected Unit Credit		
Investment Rate of Return:	4.00 percent per annum (previously 4.00 percent)		
Healthcare Trend Rates:	<u>Year</u>	<u>Medical</u>	<u>Dental</u>
	FY 2008	11.0%	8.5%
	FY 2009	10.0%	8.0%
	FY 2010	9.3%	7.5%
	FY 2011	8.0%	1.5%
	FY 2012	7.0%	6.5%
	FY 2013	6.0%	6.0%
	FY 2014	5.0%	5.5%
	FY 2015	5.0%	5.0%
General Inflation Assumption:	3.50% per annum		
Annual Compensation Increases:	4.50% per annum		
Actuarial Value of Assets:	Market Value		
Amortization of UAAL:	Level dollar amortization over 30 years at transition		
Remaining Amortization Period:	28 years at July 1, 2011		

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS PAYABLE (Continued)**

***Governmental Activities and Water Fund***

In the July 1, 2009 actuarial valuation, actuarial liabilities were determined using the projected unit credit method. The actuarial methods and assumptions included a 4.00 percent investment rate of return and annual health care cost rate trends ranging from 11 percent to 5 percent. The UAAL is being amortized over thirty (30) years using an increasing amortization payment at the rate of assumed payroll increase due to inflation (3.50 percent). The remaining amortization period at July 1, 2009 was thirty (30) years.

***Electric Light Fund***

In the July 1, 2009 actuarial valuation, actuarial liabilities were determined using the projected unit cost method. The actuarial methods and assumptions included a 4.25 percent investment rate of return and annual health care cost rate trends ranging from 10 percent to 6 percent. The UAAL is being amortized over thirty (30) years using an increasing amortization payment at the rate of assumed payroll increase due to inflation (3.50 percent). The remaining amortization period at July 1, 2009 was thirty (30) years.

**TOWN OF STERLING, MASSACHUSETTS**

**Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

**NOTE 14 – FUND BALANCES**

The following is a summary of the Governmental Fund Balances of the Town at June 30, 2011:

	<b>General Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Non-Spendable:</b>			
Permanent Funds	\$ _____	\$ 355,772	\$ 355,772
<b>Restricted:</b>			
Federal and State grants		64,493	64,493
Revolving		302,437	302,437
Gifts and other		689,534	689,534
Permanent expendable funds		104,856	104,856
Debt service	8,668		8,668
<b>Total Restricted</b>	<u>8,668</u>	<u>1,161,320</u>	<u>1,169,988</u>
<b>Assigned:</b>			
Ambulance services		204,404	204,404
Permanent expendable funds		5,000	5,000
General government	173,231		173,231
Public safety	27,478		27,478
Public works	157,001		157,001
Health and human services	46,937		46,937
Culture and recreation	21,260		21,260
Subsequent year's budget	60,188		60,188
<b>Total Assigned</b>	<u>486,095</u>	<u>209,404</u>	<u>695,499</u>
<b>Unassigned:</b>	<u>7,311,649</u>	<u>(3,321)</u>	<u>7,308,328</u>
<b>Total Governmental Fund Balance</b>	<u>\$ 7,806,412</u>	<u>\$ 1,723,175</u>	<u>\$ 9,529,587</u>

**NOTE 15 – SPECIAL TRUST FUNDS**

**Stabilization Fund**

Under Section 5B of Chapter 40 of the Massachusetts General Laws, the Town may, for the purpose of creating a stabilization fund, appropriate in any year an amount not exceeding ten (10) percent of the amount raised in the preceding year by taxation of real estate and tangible personal property or such larger amount as may be approved by the Emergency Finance Board. The aggregate amount in the fund at any time shall not exceed ten (10) percent of the equalized valuation of the Town and any interest shall be added to and become a part of the fund. The Stabilization Fund may be appropriated in a Town at a Town Meeting for any lawful purpose.

At June 30, 2011 balances in the General Stabilization Fund of \$1,459,884 and the Capital Stabilization Fund of \$5,269,434 were reported in the General Fund as unassigned fund balance.



## **TOWN OF STERLING, MASSACHUSETTS**

### **Notes to Basic Financial Statements**

**Year Ended June 30, 2011**

#### **NOTE 16 – RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **NOTE 17 – COMMITMENTS AND CONTINGENCIES**

##### **A. Litigation**

The Town is subject to legal actions and claims that are subject to many uncertainties. Although the amount of liability, if any, at June 30, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2011.

##### **B. Town Meeting – Fiscal Year 2012**

The Town of Sterling operates under the "Open Meeting" concept where each voter has an equal vote in adopting of Town budgets and appropriations. The financial statements for June 30, 2011 do not reflect the Fiscal Year 2011 Town Meeting action. The Annual Town Meeting on May 16, 2011 authorized a Fiscal Year 2012 operating and capital budget as follows:

From the Tax Levy	\$ 18,626,002
From Water Fund	880,100
From Ambulance receipts	190,000
From Capital Stabilization	383,696
From Stabilization	681,500
From overlay surplus	60,188
From other available funds	19,404
	<u>\$ 20,840,890</u>

##### **C. Berkshire Wind Cooperative Corporation**

The Municipal Light Department is a member of the Berkshire Wind Cooperative Corporation (Cooperative).

The Cooperative is organized under Chapters 157 and 164: Section 47C of the State of Massachusetts Statutes and constitutes a municipal lighting plant cooperative. The Cooperative was formed by Massachusetts Municipal Wholesale Electric Company (MMWEC) and 14 Municipal Light Departments (Members) for the purpose of financing, owning, constructing and operating wind generation facilities located on Brodie Mountain in the towns of Hancock and Lanesborough, Massachusetts (Berkshire Wind Facility).

The Cooperative is in the development stage. This stage is characterized by significant expenditures related to the preparation and the installation of 10 1.5-megawatt wind turbines at the Berkshire Wind Facility.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)**

**C. Berkshire Wind Cooperative Corporation (Continued)**

Upon completion of the Berkshire Wind Facility, the Cooperative will provide wind energy to MMWEC pursuant to the Berkshire Wind Power Purchase Agreement dated May 21, 2008 between MMWEC and the Cooperative. Under this agreement, MMWEC entered into a Power Sales Contract with the Cooperative pursuant to which MMWEC has agreed to purchase 100 percent of the capacity and energy output and, to the extent uncommitted to any third party under existing agreements, associated environmental energy attributes of a wind power generating facility to be owned, constructed and operated by the Cooperative at the Berkshire Wind Facility.

MMWEC sells all of the capability of the Berkshire Wind Facility (Capability) to the Members of the Cooperative (Members) under Power Purchase Agreements (PPAs). Among other things, the PPAs require each Cooperative Member to pay its pro rata share of the costs related to the Berkshire Wind Facility, which costs include debt service on the bonds issued by the Cooperative to finance the Berkshire Wind Facility, plus 10 percent of the debt service to be paid into a Reserve and Contingency Fund.

In addition, should a Cooperative Member fail to make any payment when due, other Cooperative Members may be required to increase (step-up) their payments and correspondingly their share of the Capability to an additional amount.

The Cooperative has issued revenue bonds, which are payable solely from, and secured solely by, the revenues derived from the Berkshire Wind Facility. The revenues are used solely to provide to the payment of any bond issue relating to the Berkshire Wind Facility and to pay the Cooperative's cost of owning and operating the Berkshire Wind Facility.

The SMLD has entered into a PPA with the Berkshire Wind Cooperative Corporation. Under the PPA, the Department is required to make certain payments to the Cooperative. Under the PPA, each Participant is unconditionally obligated to make all payments due to the Berkshire Wind Cooperative Corporation, whether or not the Berkshire Wind Facility is completed or operating, and notwithstanding the suspension or interruption of the output of the Berkshire Wind Facility. In addition, under the PPA, the Department is required to pay to the Cooperative its share of the Operation and Maintenance (O&M) costs of the Berkshire Wind Facility.

The Cooperative is involved in various legal actions. In the opinion of the Cooperative management, the outcome of such actions will not have a material adverse effect on the financial position of the Cooperative.

As of December 31, 2010, total capital expenditures for the Berkshire Wind Facility amounted to \$40,861,000, of which \$2,138,000, presents the amount associated with the Department share of the Capability of the Berkshire Wind Facility of which it is a member, although such amount is not allocated to the Department. As of December 31, 2010, the Cooperative's total future debt service requirement on outstanding bonds issued for the Projects is \$104,265,000, of which \$5,455,000 is anticipated to be billed to the Department in the future.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)**

**C. Berkshire Wind Cooperative Corporation (Continued)**

The estimated aggregate amount of the Department required payments under the PSAs exclusive of the Reserve and Contingency Fund billings, to the Cooperative at December 31, 2010 and estimated for future years is shown below:

2011	\$ 88,000
2012	283,000
2013	283,000
2014	283,000
2015	282,000
2016-2020	1,412,000
2021-2025	1,412,000
2026-2030	<u>1,412,000</u>
	<u>\$ 5,455,000</u>

**D. Massachusetts Municipal Wholesale Electric Company**

The Town of Sterling, acting through its Light Department, is a participant in certain projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7 percent interest in the W. F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, a subsidiary of FPL Energy, Inc. and a 4.8 percent ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and a subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2 nuclear units. In November 2005, the Nuclear Regulatory Commission (NRC) renewed the operating licenses for the Millstone Unit 2 and Unit 3 nuclear units for an additional twenty (20) years. The license for Unit 2 was extended to July 31, 2035, and the license for Unit 3 was extended to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6 percent ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook) (formerly FPL Energy LLC). The operating license for Seabrook Station extends to March 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)**

**D. Massachusetts Municipal Wholesale Electric Company (Continued)**

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the company (MMWEC).

Seven municipal light departments that are Participants under PSAs with MMWEC have submitted a demand for arbitration of a dispute relating to charges under the PSAs. MMWEC cannot predict the outcome of the arbitration demand, but in the opinion of MMWEC' management, it will not have a material adverse effect on the financial position of MMWEC.

As of December 31, 2010, total capital expenditures for MMWEC's Projects amounted to \$1,573,048,000, of which \$20,802,000 represents the amount associated with the Light Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue Bonds totaling \$444,255,000, of which \$5,929,000 is associated with the Light Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Light Department. As of December 31, 2010, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$491,543,000 of which \$6,607,000 is anticipated to be billed to the Light Department in the future.

The estimated aggregate amount of the Light Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2010 and estimated for future years, is shown below.

<b>For the years Ended December 31,</b>	<b>Annual Costs</b>
2011	\$ 1,034,000
2012	1,036,000
2013	1,031,000
2014	1,034,000
2015	1,038,000
2016-2019	1,434,000
<b>Total</b>	<b><u>\$ 6,607,000</u></b>

In addition, under the PSAs, the Light Department is required to pay MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)**

**D. Massachusetts Municipal Wholesale Electric Company (Continued)**

The Light Department's total O&M costs including debt service under the PSAs were \$2,508,000 for the year ended December 31, 2010.

**E. Other Power Purchase Obligations**

In addition to the power purchased through MMWEC contracts, which supply approximately 80 percent of the Department's needs, the Light Department has a contract with Macquarie Energy LLC to purchase power through December 2016. The contract prices for both on-peak and off-peak power for energy delivered through December 31, 2016 is \$65.41/MWH. The contract quantity is 1.75 MWH for on-peak and .5 MWH for off-peak power.

**NOTE 18 – PENSION PLANS**

**A. County Retirement Plan**

**Description**

The Town contributes to the Worcester County Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases to the State legislature. The System issues a publicly available financial report which can be obtained through the Worcester County Retirement System, 23 Midstate Drive, Suite 106, Midstate Office Park, Auburn, MA 01501.

**Funding Policy**

Plan members are required to contribute to the System at rates ranging from five percent (5%) to eleven percent (11%) of annual covered compensation. The Town is required to pay into the System, its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws.)

The Town's contributions to the System for the years ended June 30, 2011, 2010 and 2009 were \$475,363, \$442,472 and \$405,298, respectively, which were equal to its annual required contributions.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 18 – PENSION PLANS (Continued)**

**B. Teachers Retirement Plan**

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the System and gross earnings, up to \$30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 to December 31, 1983	7%
January 1, 1984 to June 30, 1996	8%
July 1, 1996 to June 30, 2001	9%
Beginning July 1, 2001	11%

In Fiscal Year 2011, the Commonwealth of Massachusetts contributed \$182,913 to the MTRS on behalf of the Town.

**C. Deferred Compensation Plans**

The Town has a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan is administered by independent plan administrators through administrative service agreements. Employees defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The deferred compensation plan is not reported within the Town's financial statements. The plan assets are held by third parties serving as trustee for the exclusive benefit of the plan participants and their beneficiaries.

**NOTE 19 – PRIOR PERIOD ADJUSTMENT**

The accompanying financial statements reflect adjustments resulting from a restatement of beginning Net Assets of the Governmental Activities as of June 30, 2010, as follows:

- A. Decrease in net assets of the Governmental Activities to reflect an adjustment for compensatory or flex-time. The liability for compensated absences included a liability for accumulated sick time, but not for compensatory or flex-time earned.
- B. Increase in Net Assets of the Governmental Activities to reflect a change in accounting estimates for the liability reported for landfill post-closure care costs.

**TOWN OF STERLING, MASSACHUSETTS**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2011**

**NOTE 19 – PRIOR PERIOD ADJUSTMENTS**

The following summarizes the effect of the prior period adjustments to the beginning net assets at June 30, 2010:

Governmental Activities Net Asset at beginning of year, as previously reported	\$ 35,035,229
Increase (decrease) to Net assets for:	
1. Compensated absences	(70,407)
2. Landfill post-closure care costs	<u>197,092</u>
Governmental Activities Net Asset at beginning of year, as restated	<u>\$ 35,181,914</u>

**NOTE 20 – RESTATEMENT**

As required by GASB Statement No. 54, fund balances as of June 30, 2010, have been restated. The beginning fund balance of the General Fund increased by \$6,838,484 to \$8,218,491 to reflect the Stabilization Fund in the General Fund and the beginning fund balance of the Stabilization Fund (a prior major fund) was decreased by \$6,838,484.

## **SUPPLEMENTARY SCHEDULES**



**TOWN OF STERLING, MASSACHUSETTS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the Year Ended June 30, 2011**

	<u>Fund Balances</u> <u>July 1, 2010</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing</u> <u>Sources (Uses)</u>	<u>Fund Balances</u> <u>June 30, 2011</u>
<b>SPECIAL REVENUE FUNDS</b>					
<b>Federal and State Grants:</b>					
Council on Aging Grants	\$	\$ 6,377	\$ 6,377	\$	\$ -
Highway Grants		355,791	355,791		-
FEMA/MEMA Grants	56,112	35,558	52,363		39,307
State Polling Hours		915		(915)	-
Library Grants	2,472	10,011	8,463		4,020
Public Safety Grants	4,006	32,835	30,216		6,625
Board of Health Grant – City of Worcester	5,408	4,000	4,119		5,289
Board of Health Grants	8,949	1,875	6,465		4,359
Cultural Council Grant	3,572	3,901	2,575		4,898
CDBG – Sewer Waushacum Village Improvements	11,029		11,029		-
<b>Other:</b>					
Conservation Wetland	18,953	1,135	5,405		14,683
Ambulance Receipts	205,991	246,661		(200,000)	252,652
Council on Aging Revolving	20,083	3,682	4,557		19,208
Council on Aging Gift	9,786	383			10,169
Cemetery Improvements	812				812
Police Law Enforcement	7,155	874	437		7,592
Fair Revolving	80,560	82,336	82,294		80,602
Gasoline Revolving	33,457	31,974	32,393		33,038
Fire Donations	9,498	6,376	6,575		9,299
Police DARE gift	9,780				9,780
Police Gift	6,632				6,632
Planning Board Revolving	12,249	780	824		12,205
Planning Board Review Fees	64,272	9,838	17,942		56,168
Agriculture Revolving	450	275	4		721
Hazardous Waste Revolving		1,937	175		1,762
Police Off Duty	1,944	45,726	50,090		(2,420)
<b>Sub-Total Special Revenue Funds</b>	<b>\$ 573,170</b>	<b>\$ 883,240</b>	<b>\$ 678,094</b>	<b>\$ (200,915)</b>	<b>\$ 577,401</b>

(Continued on Page 74)

**TOWN OF STERLING, MASSACHUSETTS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the Year Ended June 30, 2011**  
(Continued from Page 73)

	<u>Fund Balances</u> <u>July 1, 2010</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing</u> <u>Sources (Uses)</u>	<u>Fund Balances</u> <u>June 30, 2011</u>
<b>SPECIAL REVENUE FUNDS:</b>					
<b>Federal and State Grants:</b>					
<b>Sub-Total Special Revenue Funds</b>	\$ 573,170	\$ 883,240	\$ 678,094	\$ (200,915)	\$ 577,401
<b>Other (Continued):</b>					
Fire Off Duty		837	837		-
Town Hall	7,203	2,746	4,061		5,888
Recycling Revolving	48,270	36,031	31,345		52,956
Recreation Revolving	107,720	131,561	142,659	5,323	101,945
Recreation Fields	12,800	8,681	6,158	(5,323)	10,000
Recreation Playground	5,300	320	4,483		1,137
Recreation Yahoo	2,912	1,690	1,716		2,886
Sale of Cemetery Lots	62,395	3,200			65,595
Title V Septic Loan Program	109,473	9,562			119,035
Sale of Real Estate	13,650				13,650
Insurance Reimbursements		49,851	45,265		4,586
Cable Access	3,717	120,290	120,290		3,717
Wachusett EMS	165,268	20,266		(21,606)	163,928
Chocksett Crossing Stabilization	37,097	456			37,553
G & M Recreation Fund	8,489	106		(5,000)	3,595
Conservation Fund	30,238	378			30,616
Allen Library Gift		135,730			135,730
Library Gift Fund	1,579	7,272	9,752		(901)
<b>Total Special Revenue Funds</b>	<u>1,189,281</u>	<u>1,412,217</u>	<u>1,044,660</u>	<u>(227,521)</u>	<u>1,329,317</u>
<b>PERPETUAL PERMANENT FUNDS</b>					
Cemetery Funds	240,746	3,200			243,946
Library Fund	106,826				106,826
G & M Recreation Fund				5,000	5,000
<b>Total Perpetual Permanent Funds</b>	<u>347,572</u>	<u>3,200</u>	<u>-</u>	<u>5,000</u>	<u>355,772</u>

(Continued on Page 75)

**TOWN OF STERLING, MASSACHUSETTS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the Year Ended June 30, 2011**  
(Continued from Page 74)

	<b>Fund Balances July 1, 2010</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Other Financing Sources (Uses)</b>	<b>Fund Balances June 30, 2011</b>
<b>PERMANENT FUNDS</b>					
Cemetery Funds	36,609	4,416		(5,000)	36,025
Library Fund	1,087	1,349	375		2,061
<b>Total Permanent Funds</b>	<u>37,696</u>	<u>5,765</u>	<u>375</u>	<u>(5,000)</u>	<u>38,086</u>
<b>TOTAL – NON-MAJOR GOVERNMENTAL FUNDS</b>	<u>\$ 1,574,549</u>	<u>\$ 1,421,182</u>	<u>\$ 1,045,035</u>	<u>\$ (227,521)</u>	<u>\$ 1,723,175</u>

# TOWN OF STERLING, MASSACHUSETTS

## Schedule of Real Estate and Personal Property Taxes

July 1, 2010 to June 30, 2011

	Uncollected Taxes July 1, 2010	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2011	Uncollected Taxes Per Detail June 30, 2011
<b>REAL ESTATE TAXES</b>						
Lewy of 2011	\$	\$14,078,795	\$ 142,015	\$13,735,951	\$ 200,829	\$ 200,829
Lewy of 2010	243,064		25,516	214,229	3,319	3,319
Lewy of 2009	21				21	21
Lewy of 2008						-
Lewy of 2007						-
Lewy of 2006	330				330	330
Lewy of 2005	275				275	275
	<u>243,690</u>	<u>14,078,795</u>	<u>167,531</u>	<u>13,950,180</u>	<u>204,774</u>	<u>204,774</u>
<b>PERSONAL PROPERTY TAXES</b>						
Lewy of 2011		538,892	2,913	532,340	3,639	3,639
Lewy of 2010	7,181			5,311	1,870	1,870
Lewy of 2009	2,644			1,225	1,419	1,419
Lewy of 2008	4,141			2,006	2,135	2,135
Lewy of 2007	1,442			586	856	856
Lewy of 2006	777			28	749	749
Lewy of 2005	533			2	531	531
	<u>16,718</u>	<u>538,892</u>	<u>2,913</u>	<u>541,498</u>	<u>11,199</u>	<u>11,199</u>
<b>TOTAL REAL ESTATE AND PERSONAL PROPERTY TAXES</b>	<u>\$ 260,408</u>	<u>\$14,617,687</u>	<u>\$ 170,444</u>	<u>\$14,491,678</u>	<u>\$ 215,973</u>	<u>\$ 215,973</u>

**TOWN OF STERLING, MASSACHUSETTS**

**Schedule of Motor Vehicle Excise Taxes**

**July 1, 2010 to June 30, 2011**

	<b>Uncollected Taxes July 1, 2010</b>	<b>Commitments</b>	<b>Abatements and Adjustments</b>	<b>Collections Net of Refunds and Overpayments</b>	<b>Uncollected Taxes June 30, 2011</b>	<b>Uncollected Taxes Per Detail June 30, 2011</b>
<b>MOTOR VEHICLE TAXES</b>						
Levy of 2011	\$	\$ 972,786	\$ 17,496	\$ 864,139	\$ 91,151	\$ 91,151
Levy of 2010	78,435	118,939	9,917	173,940	13,517	13,517
Levy of 2009	13,109	618	610	7,186	5,931	5,931
Levy of 2008	5,816			1,974	3,842	3,842
Levy of 2007	4,555			354	4,201	4,201
Levy of 2006	4,274			653	3,621	3,621
Levy of 2005	3,401			129	3,272	3,272
Prior Years	2,979	15		28	2,966	2,966
<b>TOTAL MOTOR VEHICLE EXCISE TAXES</b>	<b>\$ 112,569</b>	<b>\$ 1,092,358</b>	<b>\$ 28,023</b>	<b>\$ 1,048,403</b>	<b>\$ 128,501</b>	<b>\$ 128,501</b>

**TOWN OF STERLING, MASSACHUSETTS**

**Schedule of Tax Liens and Possessions**

**July 1, 2010 to June 30, 2011**

	<u>Uncollected Accounts July 1, 2010</u>	<u>Commitments</u>	<u>Abatements and Adjustments</u>	<u>Collections Net of Refunds and Overpayments</u>	<u>Uncollected Accounts June 30, 2011</u>	<u>Uncollected Accounts Per Detail June 30, 2011</u>
<b>TAX LIENS</b>	\$ 168,297	\$ 101,545	\$	\$ 23,934	\$ 245,908	\$ 245,908
<b>TAX POSSESSIONS</b>	<u>90,804</u>				<u>90,804</u>	<u>90,804</u>
<b>TOTAL TAX LIENS AND POSSESSIONS</b>	<u>\$ 259,101</u>	<u>\$ 101,545</u>	<u>\$ -</u>	<u>\$ 23,934</u>	<u>\$ 336,712</u>	<u>\$ 336,712</u>